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# REVIEW OF SECTORAL CLUSTERS: LAND, DESERTIFICATION, FORESTS AND BIODIVERSITY

## Report of the Ad Hoc Inter-sessional Working Group on Sectoral Issues of the Commission on Sustainable Development

(New York, 27 February-3 March 1995)

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## INTRODUCTION

1. The report of the Ad Hoc Inter-sessional Working Group on Sectoral Issues is not a negotiated text, although its contents have been thoroughly discussed. In accordance with the expert nature of the Working Group and the functions assigned to it by the Commission on Sustainable Development, the present report focuses on key issues and conclusions and suggests possible recommendations and policy options for consideration by the Commission at its third session.

## I. COMMON ELEMENTS AND INTERLINKAGES

2. A number of issues common to all the topics under consideration emerged during the discussion of the Working Group. It was noted that chapter 10 of Agenda 21, 1/ entitled "Integrated approach to the planning and management of land resources", provided an overall framework for the implementation of the entire cluster. All the chapters are related to land; however, those on forests and sustainable agriculture are concerned with the sustainable management and use of physical and biological resources, those on desertification and sustainable mountain development reflect the particular problems of fragile environments, and that on biodiversity covers an issue of a cross-cutting nature.

### A. Approaches

3. Respect for national sovereignty, as well as the need for a comprehensive approach to the implementation of the recommendations and commitments contained in Agenda 21, the Rio Declaration on Environment and Development, 2/ and the Non-legally Binding Authoritative Statement of Principles for a Global Consensus on the Management, Conservation and Sustainable Development of All Types of Forests, 3/ is fundamental for achieving sustainable development.

4. A people-oriented approach adapted to suit local circumstances is central to sustainable development. All stakeholders, including women, indigenous people and other major groups, should participate in the planning and management of land resources, as well as in the consensus-building process. The empowerment of people and communities, and the creation of an enabling environment, as well as the strengthening of capacities at the local and intermediate levels, are other important elements of this multi-stakeholder approach. It is critically important that interactions between Governments and other stakeholders in the planning, consensus-building and management process take place at the appropriate level. This may be national, intermediate or local, and needs to be decided on a case-by-case basis. Discussions at the intermediate level can be particularly useful for balancing local and national concerns.

5. Any integrated and multidisciplinary approach to the planning, development and management of land resources needs to address an array of cross-sectoral issues such as the creation of productive employment, the eradication of poverty and responses to the pressures on land caused by poverty, population growth,

changing demographic patterns and unsustainable consumption and production. Land tenure and ownership reforms are central to the solution of these problems. These cross-sectoral issues apply equally in resolving the conflicting land demands of agriculture, forestry and urban or periurban development, in coastal zones, and when seeking to integrate land and water management and to conserve fragile ecosystems.

6. Governments, local communities and organizations and the private business sector are all stakeholders in the development, use and management of land resources. Governments have a responsibility to provide the necessary enabling environment, guiding markets and investments so that they operate in a manner compatible with national economic, social and environmental objectives and international trade arrangements and facilitate sustainable development.

## B. Tools

7. Land assessment and evaluation methodologies, together with those for resource characterization, are essential for the planning and management process. The collection, availability and proper use of timely and reliable scientific data are also essential for the formulation and implementation of policies and the monitoring of results. Indicators, including performance indicators, need to be developed on the basis of sound scientific knowledge, recognizing the need for an approach that is tailored to meet local requirements and circumstances. The development of computerized geographical information systems and the availability of remote-sensing imagery are examples of useful modern tools for decision-making. There is a need for the coordination of the various planning requirements and for linking sectoral plans to sustainable development strategies.

8. Human resource development is an essential first step for capacity-building and awareness-raising as well as for empowering people and local communities and enhancing their productivity. Modern communication technologies can make a major contribution to the wide dissemination of information and educational material.

## C. Finance

9. National efforts in developing countries to mobilize financial resources for full and effective implementation of Agenda 21, including its land-related chapters under review, have to be supported by the international community. It is imperative that all financial recommendations and commitments of Agenda 21, including those related to the provision to the developing countries of adequate and predictable, new and additional financial resources, are implemented. The need for partnership for sustainable development among all countries, and better cooperation and coordination among national institutions, international organizations including international financial institutions, the private sector and non-governmental organizations, were underscored. The meeting of the Ad Hoc Inter-sessional Working Group on Finance of the Commission on Sustainable Development provides an important opportunity to further the discussion on this crucial matter.

## D. Technology transfer, cooperation and capacity-building

10. The subject of technology transfer, as set forth in chapter 34 of Agenda 21, is a key element in the attainment of sustainable development. Each of the sectoral reports under consideration by the Working Group contains sections devoted to the scientific, technological and capacity-building dimensions of the cluster of land-related issues. One report prepared by a panel of the Commission on Science and Technology for Development is devoted exclusively to "Science and technology for integrated land management".

11. The sharing of scientific knowledge and, more specifically, the transfer of environmentally sound technology, including on concessional and preferential terms, in accordance with the provisions of chapter 34, are crucial instrumentalities for achieving the objectives of Agenda 21. Several members of the Working Group felt that better linkages should be established between the cross-sectoral dimension of technology transfer and the specific technology issues raised in the sectoral reports. Additional research and knowledge, particularly in the social sciences, are required on such issues as land tenure systems, migration patterns and traditional systems of law, as a basis for future policy recommendations on land management.

12. The urgency of transferring modern survey technologies such as improved systems of remote-sensing geographical information systems to secure better monitoring of land use, agriculture, forestry and biodiversity was underscored by the Working Group. The practical approach taken to technology transfer at the meeting held in Mexico City in March 1994 within the context of the Convention on Biological Diversity 4/ was noted. At the same time, it was recognized that inappropriate technology and input-intensive solutions to agricultural and land-use problems may in some cases lead to unsustainable results. Greater reliance on indigenous knowledge and close involvement of farmers and other land users might in fact provide alternatives to undue reliance on external technology. Matters related to safeguarding farmers' rights, indigenous knowledge, innovation, technology and intellectual property rights were discussed and their importance was emphasized. New and better technologies and deeper scientific knowledge along with development of the related institutional and human capacities are nevertheless essential ingredients that must receive further national and international support and encouragement.

## E. Relationship between existing conventions and other related processes

13. The Convention on Biological Diversity and the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa (A/49/84/Add.2, annex, appendix II) have now established their own agendas for action, which should be supported by the Commission on Sustainable Development. The Commission should therefore urge countries to sign, ratify, accede to and implement the conventions. Furthermore, the Commission should look into the relationship between work under these conventions and ongoing work on sustainable development in other, related processes in the follow-up to the United Nations Conference on Environment and

Development including work under the United Nations Framework Convention on Climate Change (see A/AC.237/18 (Part II)/Add.1 and Corr.1). The Commission should encourage a coordinated approach to implementation at the international and the national level, with a view to making more efficient and effective use of resources.

## II. RECOMMENDATIONS ON THE PROPOSALS CONTAINED IN THE REPORTS OF THE SECRETARY-GENERAL

14. The Working Group took note of the detailed proposals for action included in the reports of the Secretary-General. It gave a general welcome to these proposals, but expressed reservations on some of them. It was agreed that implementation at the national level was essential (though without detracting from the importance of international cooperation). There was also agreement that the relative priorities of the different recommendations needed further evaluation. The Working Group recommends that the Commission agree on future action, based on the recommendations and the views expressed in the discussion of the various sectoral reports.

### A. Agenda 21, chapter 10: integrated approach to the planning and management of land resources

15. The management of land and its resources, which is crucial to sustainable development, was emphasized as a national prerogative calling for national and subnational action. At the same time, there is a need for cooperation between Governments and international organizations in this area. The importance of appropriate land tenure arrangements and legislation in determining efficient land use and management was stressed. Many delegations welcomed the conclusions and recommendations of the International Workshop on the Planning and Management of Land Resources, held in Wageningen, the Netherlands, from 20 to 22 February 1995, under the auspices of the Government of the Netherlands in cooperation with the Food and Agriculture Organization of the United Nations (FAO) and of the Panel on Science and Technology for Integrated Land Management of the Commission on Science and Technology for Development. They noted that the recommendations of the Workshop complemented those contained in the report of the Secretary-General on an integrated approach to the planning and management of land resources (E/CN.17/1995/2) and were worthy of further consideration by the Commission.

16. The exchange of knowledge and methodology was commended, with the caveat that data collection was costly and needed to be focused on priority topics.

17. The proposal for a covenant on good land use, as contained in proposal 7 of the report of the Secretary-General on an integrated approach to the planning and management of land resources (see E/CN.17/1995/2, sect. III (2)), and that for an international working group, as contained in proposal 8 of the report of the Secretary-General (E/CN.17/1995/2, sect. III (2)), were not supported.

## B. Agenda 21, chapter 11: forests

18. There was recognition that chapter 11 of Agenda 21 and the Non-legally Binding Authoritative Statement of Principles for a Global Consensus on the Management, Conservation and Sustainable Development of All Types of Forests represent an important international consensus, and that efforts should be made to promote their full and urgent implementation. The Commission on Sustainable Development was seen as providing the appropriate framework for bringing together the capacities and competencies of many United Nations bodies and other international organizations in the follow-up to these agreements. There was also a general preference for further consideration of options to take place under intergovernmental forums rather than through groups of eminent persons or other non-official mechanisms.

19. In considering the analysis of demands, challenges and issues, as well as proposals for action, the Working Group called for full attention to be paid to the cross-sectoral factors that are the underlying causes of deforestation and degradation of forests. It emphasized that such factors as consumption and production patterns, poverty, population growth, pollution, terms of trade, discriminatory trade practices and unsustainable policies related to sectors like agriculture, energy and trade could exert a significant adverse influence on forests. It also recalled the multiple roles of forests in economic development and in conserving biological diversity and supporting the livelihoods of many indigenous and other local communities, in addition to their many other production- and protection-related and social functions.

20. The Working Group welcomed post-United Nations Conference on Environment and Development progress reported by the Secretary-General with regard to level of awareness of forest issues, adaptation of policies, and preparation or adaptation of strategies and action plans, as well as some concrete action. It considered further concrete action, particularly by Governments, to be an urgent priority and identified a number of outstanding issues that required further attention, some of which were reflected in the conclusions and options for action indicated by the Secretary-General.

21. To pursue consensus and formulation of coordinated proposals for action, the Working Group suggested that the Commission, at its third session, consider the establishment of an open-ended intergovernmental panel on forests, under the aegis of the Commission. The panel should work in an open, transparent and participatory manner. It should provide an assessment of action already undertaken to combat deforestation and forest degradation and to promote management conservation and sustainable development of all types of forests, including environmental and socio-economic impacts, and against this background propose options for further action. In its work, the panel would draw upon the expertise of relevant organizations, including FAO, the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP), the International Tropical Timber Organization (ITTO) and other relevant organizations within and outside of the United Nations system as well as the secretariats of relevant conventions, with appropriate contributions from non-governmental organizations. The Commission should consider arrangements for effective coordination of this process.

22. The Commission would determine the mandate of the panel and the modalities for its establishment. The Working Group suggested that the terms of reference should derive from elements contained in the Non-legally Binding Authoritative Statement of Principles for a Global Consensus on the Management, Conservation and Sustainable Development of All Types of Forests and in chapter 11 of Agenda 21, taking into account subsequent international initiatives related to forests. Possible elements for the programme of work or terms of reference of the intergovernmental panel on forests were presented during the discussions and are included in annex I to this report. The panel should submit a progress report to the Commission at its fourth session and its final conclusions, recommendations and proposals for action to the Commission at its fifth session.

### C. Agenda 21, chapter 12: combating desertification and drought

23. Emphasis was placed on the need for early signature, ratification and entry into force of the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa, and to support resolution 5/1 of the Intergovernmental Negotiating Committee for the Elaboration of an International Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa, on urgent action for Africa (see A/49/84/Add.2, annex, appendix III, sect. A), as well as to promote actions in other regions. The Commission was urged to give strong political support to the first session of the Conference of the Parties to the Convention to Combat Desertification.

24. Desertification is a social and economic problem, as well as an environmental one. Drought and land degradation can occur in all climatic zones, affecting a very large number of people. Emphasis was placed on the need to take action on drought, particularly for the mitigation of its effects, and to recognize that land degradation also occurs in subhumid and humid regions. Attention was drawn to the close relationship among desertification, water issues, irrational use of land, the loss of biodiversity, and the possible aggravation of desertification through climate change. It was also indicated that implementation of the programme areas of Agenda 21 should be carried out within the context of the Convention, including its regional implementation annexes.

25. The potential for the Convention to provide an in-country coordinating mechanism for integrated land management in arid, semi-arid and dry, subhumid lands was pointed out. It was felt that the Commission should lend its full support to the Convention process, particularly in underscoring the political implications of the Convention, in promoting awareness of it, and in urging early ratification and effective implementation, especially in Africa. The Commission was urged to continue its catalytic role.

26. In order to deal with these problems, the Working Group suggested that the Commission on Sustainable Development should, in particular, promote (a) observance of the World Day to Combat Desertification and Drought on 17 June; (b) awareness among policy makers through national institutions

established within the framework of the Convention; (c) an integrated approach to combating desertification, taking into account the links between desertification and poverty and the need for technologies for sustainable development; and (d) the mobilization of financial resources, inter alia, as called for by the relevant provisions of the Convention (articles 6, 20 and 21) and needed for its implementation, particularly in Africa.

## D. Agenda 21, chapter 13: sustainable mountain development

27. It was appreciated that the report of the Secretary-General on sustainable mountain development (E/CN.17/1995/5), in addition to technical aspects, also covered the social, economic and cultural aspects of human development in mountain areas. The active role played by the non-governmental organization and the academic communities in the preparation of the document and in the general follow-up to chapter 13 was noted with appreciation. Attention was drawn to the need for international organizations and non-governmental organizations to join with Governments in the implementation of chapter 13 of Agenda 21.

28. The Working Group emphasized the need for action at the local, national and subregional and regional levels having the objective of reducing poverty in mountain areas, diversifying mountain economies, addressing environmental problems and creating new livelihood opportunities. In this connection it was stressed that people in mountain areas should receive a fair share of the benefits of resources originating in mountain areas with particular reference to the value of water, energy and mineral resources and income from tourism.

29. Concerning the proposals for action, the Working Group suggested that the Commission consider encouraging countries, with the support of the international community, to prepare and initiate implementation of comprehensive national mountain development programmes and to strengthen national capacity for sustainable mountain development using a participatory approach involving all stakeholders, including local and indigenous communities and non-governmental organizations.

30. The Working Group generally agreed with the proposals for encouraging interested countries and organizations to convene regional intergovernmental consultations and noted that one such meeting, organized by the International Centre for Integrated Mountain Development (ICIMOD) in December 1994, had already been successfully held in the Asia and Pacific region and that others were in the course of preparation. A wider international meeting, possibly involving appropriate United Nations bodies, could facilitate the exchange of objectives, results and experiences concerning sustainable development in different mountain regions.

31. The Working Group suggested that the Commission support efforts to coordinate the preparation and negotiation of subregional international agreements on mountains and, in this context, welcomed the entry into force of the Alpine Convention.

## E. Agenda 21, chapter 14: promoting sustainable agriculture and rural development

32. The Working Group recognized the need for an approach to sustainable agriculture and rural development (SARD) that balanced the need to maintain and improve food security and to protect physical and biological resources.

33. It underlined the importance of an undistorted sectoral and economy-wide policy framework that fully integrated environmental considerations. In this context, it noted that the full implementation of the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations 5/ would contribute to liberalizing international agricultural trade. The Working Group also took note of the activities of the World Trade Organization, the United Nations Conference on Trade and Development (UNCTAD), UNEP and other forums. Some of this work is directed towards reforms in accordance with Uruguay Round agreements to reduce production-distorting price support, liberalize access, reduce tariff escalation and progressively eliminate export subsidies. The economic, social and environmental impacts of trade liberalization in the agriculture sector, especially on the least developed countries, should be monitored and evaluated with a view to promoting effects benefiting sustainable agriculture and rural development and deterring negative effects.

34. It also underlined the importance of developing appropriate internationally agreed agro-environmental criteria and indicators applicable to both developed and developing countries in order to monitor the status of and progress towards SARD, with the full and effective participation of developing countries, reflecting their specific conditions and needs.

35. The Working Group urged that a whole systems approach be adopted towards SARD, recognizing that efforts towards achieving its multiple objectives could not focus on agricultural activities alone, but would have to embody other local assets, land-use planning and community development. There was also a need to change attitudes and take concrete steps towards adopting sustainable agricultural policies and practices in order to enhance that process. Countries should be encouraged and supported in working out their own comprehensive agriculture policies and programmes taking full account of environmental concerns and the capacity-building needed to establish and maintain them.

36. Energy is one of the prerequisites of SARD. The Working Group took note of the recommendations of the Committee on New and Renewable Sources of Energy and on Energy for Development at its special session (6-17 February 1995). It recommended that the Commission should give careful consideration to these recommendations for priority action by member States, entities within the United Nations system, other intergovernmental organizations and non-governmental organizations.

## F. Agenda 21, chapter 15: conservation of biological diversity

37. There was a general agreement that the report of the Secretary-General on conservation of biological diversity (E/CN.17/1995/7) provided a good overview of the progress achieved since the United Nations Conference on Environment and Development. The Working Group took note of the analyses and recommendations identified in the report and agreed that they provided a sound basis for advancing the conservation of biological diversity and the sustainable use of biological resources.

38. The Working Group stressed the cross-sectoral nature of biological diversity and the interlinkages among biodiversity and land use, sustainable agriculture and rural development, sustainable mountain development, sustainable forest management, desertification and virtually all other chapters of Agenda 21. Biodiversity relates to the issues of food security, and the eradication of poverty, as well as to traditional knowledge and practices of indigenous people. Biodiversity concerns should therefore be taken into account in addressing other chapters of Agenda 21.

39. The Working Group recognized that the Convention on Biological Diversity, which has now entered into force, will be the principal mechanism for advancing the conservation and sustainable use of biological diversity and provides an excellent basis for coordinating relevant instruments. The Working Group took note with appreciation of the note by the Secretariat transmitting a statement from the Conference of the Parties to the Convention to the Commission at its third session (E/CN.17/1995/27, annex). It took particular note of the intention of the Conference of the Parties to the Convention to take immediate action to undertake work on biosafety, establishing a panel of experts and an ad hoc open-ended working group of government experts to consider the needs for and modalities of a protocol to the Convention on that issue. The Working Group called on the Commission to support that biosafety work programme. The Working Group recommended that the Commission should (a) urge the Governments that had not yet done so to ratify the Convention; (b) encourage the Conference of the Parties to the Convention to take the lead in exploring means for coordinating relevant global and regional agreements related to biological diversity and establishing effective cooperation mechanisms; (c) urge Governments to integrate actions geared to conserving biodiversity and the sustainable utilization of biological resources and to promote, inter alia, through action plans, sustainable development, particularly in forests, agriculture, living marine resources, rural development and land use; (d) also urge Governments to promote the fair and equitable sharing of the benefits accruing from the utilization of biological resources; and (e) encourage the mobilization of the means of implementation with respect to the meeting of the objectives of the Convention on Biological Diversity by developing countries, particularly in the fields of financial resources and transfer of technology.

40. The Working Group recommended the promotion of human resource development and capacity-building of developing countries for the conservation and sustainable use of biodiversity and its components.

41. The Working Group recommended that the Commission ensure the systematic consideration of biodiversity issues in all other relevant sectors.

## III. KEY PROPOSALS FOR ACTION

42. The Working Group puts forward to the Commission for its consideration and coordination, where appropriate, the following key proposals for action, entailing efforts:

(a) To encourage the exchange of views on the development by Governments of their programmes for integrated land management, noting that such programmes need to involve all sectors of the community and all stakeholder groups and to be developed and implemented at the appropriate level;

(b) To encourage FAO, in partnership with UNEP, UNDP, other international organizations, and Governments, with the appropriate contributions of non-governmental organizations, to continue to develop tools for integrated land management, including internationally agreed indicators for sustainable agriculture and rural development, and to make the results of this process widely available. Such action should be carried forward to the Commission through the results of workshops, expert studies and reports, in an open and transparent manner, with the full and effective participation of developing countries, reflecting their specific conditions and needs;

(c) To accord high priority to practical action for the transfer, sharing, adaptation and development of technology for sustainable resource management in all sectors, at the national and international levels, including under the auspices of the United Nations system, in particular those of UNEP and the United Nations Educational, Scientific and Cultural Organization (UNESCO), and of international conventions, as appropriate. Such action should include support for a wide range of initiatives, including:

(i) Capacity- and institution-building;

(ii) Exchange of information making use, inter alia, of inventories on ecotechnologies in those sectors;

(iii) Education and training, through the establishment of mechanisms such as environmental technology centres;

(d) To urge all States to sign, ratify, accede to and implement the Convention on Biological Diversity, the United Nations Framework Convention on Climate Change and the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa, making these Conventions the principal instruments for advancing international cooperation and practical action in their respective fields;

(e) To establish an open-ended intergovernmental panel on forests under the aegis of the Commission and to determine the terms of reference and modalities for its establishment;

(f) To encourage action by Governments at local, national, subregional and regional levels to prepare plans and programmes for the sustainable development of mountain areas, including through the eradication of poverty and the creation of more diverse economies with greater opportunities. Such action might be addressed through national, regional and international consultations involving Governments, United Nations bodies and centres of expertise including ICIMOD, the exchange of results and the possible development of regional or subregional initiatives;

(g) To encourage Governments to integrate action on energy into their efforts for sustainable agriculture and rural development, paying particular attention to the use of biomass, the mapping of potential rural energy resources, and the extension of electrification based on renewable energy technologies in rural areas. Such action should be facilitated by support from relevant organizations and donor agencies and could include the networking of centres of excellence, which might also serve as training centres. The Commission might consider how institutional arrangements to support sustainable energy development might be facilitated within the United Nations system;

(h) To welcome the decision of the Conference of the Parties to the Convention on Biological Diversity to include in its medium-term programme consideration of knowledge, innovations and practices of indigenous and local communities; to take note of the remark in the statement of the Conference of the Parties to the Convention that it would also be desirable that future work on the protection of traditional knowledge and practices of indigenous and local communities relevant to conservation and sustainable use should be coordinated with the relevant bodies; and to welcome the progress made in the revision of the International Undertaking on Plant Genetic Resources for Food and Agriculture, which relates to outstanding matters concerning plant genetic resources, including access to ex situ collections and the question of farmers' rights.

## IV. ORGANIZATIONAL MATTERS

### A. Opening and duration of the session

43. The Working Group met at United Nations Headquarters from 27 February to 3 March 1995, in accordance with Economic and Social Council decision 1993/314 of 29 July 1993. The Working Group held 10 meetings (1st to 10th).

44. The session was opened by the Vice-Chairman of the Commission on Sustainable Development, Mr. Sérgio Florençio (Brazil).

45. The Chairman of the Working Group, Mr. Martin Holdgate (United Kingdom of Great Britain and Northern Ireland), made an introductory statement.

46. A statement was made by the Director of the Division for Sustainable Development of the Department for Policy Coordination and Sustainable Development of the United Nations Secretariat.

47. The Working Group heard presentations by the task managers from UNEP and FAO regarding the report of the Secretary-General on an integrated approach to the planning and management of land resources (E/CN.17/1995/7), on combating deforestation (E/CN.17/1995/3), on managing fragile ecosystems: combating desertification and drought (E/CN.17/1995/4), on managing fragile ecosystems: sustainable mountain development (E/CN.17/1995/5), on promoting sustainable agriculture and rural development (E/CN.17/1995/6), and on conservation of biological diversity (E/CN.17/1995/7).

## B. Attendance

48. Representatives of 34 States members of the Commission on Sustainable Development attended the session. Observers for other States Members of the United Nations and for non-member States and the European Community, representatives of organizations of the United Nations system and observers for intergovernmental and non-governmental organizations also attended. A list of participants is contained in annex II to the present report.

## C. Election of officers

49. At the 1st meeting, on 27 February 1995, the Working Group elected by acclamation Mr. Martin Holdgate (United Kingdom) as Chairman.

## D. Agenda and organization of work

50. At the 1st meeting, on 27 February 1995, the Working Group adopted its provisional agenda (see annex III to the present report), as contained in document E/CN.17/ISWG.I/1995/1.

## Notes

1/ Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992, vol. I, Resolutions Adopted by the Conference (United Nations publication, Sales No. E.93.I.8 and corrigendum), resolution 1, annex II.

2/ Ibid., annex I.

3/ Ibid., annex III.

4/ See United Nations Environment Programme, Convention on Biological Diversity (Environmental Law and Institutions Programme Activity Centre), June 1992.

5/ Legal Instruments Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh on 15 April 1994, vol. I.

## Annex I

## POSSIBLE ELEMENTS FOR THE PROGRAMME OF WORK OR TERMS OF REFERENCE OF THE PROPOSED INTERGOVERNMENTAL PANEL ON FORESTS

The following is an indicative and non-exhaustive list of specific proposals in connection with elements for the programme of work of the proposed open-ended intergovernmental panel on forests, as suggested by various delegations. These proposals are not listed in any order of priority, and are without prejudice to their future consideration by the Commission on Sustainable Development.

1. Implementation of chapter 11 and the Forest Principles

Promote consensus at the international level and guide as well as coordinate a unified international programme of work for priority action to effectively follow up the Non-legally Binding Authoritative Statement of Principles for a Global Consensus on the Management, Conservation and Sustainable Development of All Types of Forests (Forest Principles) and other forest-related United Nations Conference on Environment and Development agreements.

Examine ways and means for the effective implementation of the Forest Principles, chapter 11 and other chapters of Agenda 21 related to forestry.

2. Approaches and assessments

Formulate approaches to addressing the underlying causes of deforestation, forest degradation and failure to achieve sustainable forest management, paying particular attention to cross-sectoral issues.

Propose ways to undertake periodic systematic assessment and report on the status of forests and on progress in implementing United Nations Conference on Environment and Development agreements.

Carry out inventory of, assess and monitor the world's forest resources on an ongoing basis, through national reporting and other means.

Examine the global forest cover needed in the future to provide for all the productive, protective and environmental functions of all types of forests.

Consider the needs of developing countries with low forest cover.

Determine how to best promote national implementation of existing forest conservation and sustainable management commitments.

Investigate the impact of exogenous factors on sustainable forest development and management, and on the patterns of forest products consumption.

Develop methodologies for the integration (and the full replacement costs as well as benefits) into market prices of all types of timber and timber products.

Develop and disseminate methodologies for the full valuation of forest goods and services, their inclusion in national accounts and their better reflection in market prices.

Promote the implementation of national forest action plans, including cross-sectoral approaches and coordinated international support.

3. Trade and environment

Consider issues relating to trade and environment, within the context of an integrated approach to environment and development and the mutually supportive relationship between trade and environment.

Consider the need to remove unilateral actions and trade practices (such as bans and boycotts) not consistent with the rules of the international trading system.

4. Criteria and indicators

Review existing initiatives related to the development of criteria and indicators at the national level for sustainable forest management, and consider effecting their convergence, and their adoption and application to all types of forests.

Examine the issue of criteria and indicators, including the desirability and feasibility of developing them, and the need to ensure that the diversity among countries, particularly the specific conditions in and needs of developing countries, are fully taken into account.

Consider the desirability of establishing new criteria and indicator processes (for example, for regions not currently covered), and/or of having converge those already under way.

Promote the harmonization of all major initiatives in the formulation of internationally agreed criteria and indicators for all types of forests so as to ensure sustainable forest management.

5. Market access

Promote market access for forest products on a non-discriminatory basis, in order to avoid practices inconsistent with the rules of international trading systems.

Expand market access for developing countries.

Examine the question of promoting increased market access for forest products on a non-discriminatory basis.

6. Certification and labelling

Promote dialogue and consensus related to the examination and possible development of ecolabelling and voluntary forest product certification.

Examine the feasibility and desirability of an internationally agreed timber certification scheme for all types of timber and timber products and the costs involved.

Consider the desirability and feasibility of developing internationally agreed timber certification schemes for all types of timber.

Consider the role of certification and labelling schemes, including private voluntary programmes, in promoting sustainable forest management.

Promote dialogue and consensus related to trade and environment issues including application of criteria and indicators at the management-unit level, when relevant to ecocertification.

7. Institutions

Undertake independent review of the roles of existing international institutions concerned with forests.

Review the roles of existing international institutions that address forest issues, and how best to coordinate those roles.

Carry out independent assessment of the roles of multilateral institutions and international organizations most concerned with forests to clarify their roles, identify gaps, minimize duplication and identify areas requiring improvement.

Seek ways to facilitate participation of major groups.

8. Review of existing instruments and the need for new legally binding instruments

Review existing instruments related to achieving international forest objectives for sustainable forest management, identify gaps and develop options for addressing them, including the need or otherwise for legally binding agreements at regional and global levels or for using combinations of existing instruments.

Undertake a review of international initiatives other than those focused on criteria and indicators of sustainable forest management.

Take into account the wide variety of efforts undertaken relating to forests, including those within the framework of the Convention on Biological Diversity, the United Nations Framework Convention on Climate Change and the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa.

Assess the desirability of new international agreements on forests and the attributes of such agreements.

9. Linkages

Review means to ensure that biodiversity issues permeate the sectoral programmes related to sustainable forest management, particularly under the "land cluster" rubric.

Investigate the linkages of the United Nations Framework Convention on Climate Change, the Convention on Biological Diversity and the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa, to forests in terms of their applications/implementation, opportunities provided and gaps within the overall context of the multiple roles of forests.

Analyse how to best pursue research needs, including research on the linkage between forests and global environmental issues.

Identify and commission the research necessary to provide a stronger scientific basis for understanding the linkages between forests and regional and global environmental issues.

10. Protection of knowledge and rights

Safeguard indigenous rights.

Consider the protection of the economic, social and cultural rights of indigenous people and local communities.

Examine ways and means to protect appropriately, at the international level, the traditional knowledge of forest dwellers and local communities and to cooperate adequately with them when such knowledge is sought by developers of biotechnological innovations.

Protect the knowledge of indigenous peoples, farmers and local communities.

11. Protected areas

Examine the need for the development of an international network of ecologically representative protected areas as one among a number of measures for maintaining biological diversity and other forest values.

Consider the issue of an international network of protected forest areas.

12. Energy

Consider the important role of forests in meeting energy requirements through the provision of renewable sources of bio-energy, particularly in developing countries.

13. Information

Improve the availability, quality, timeliness and accessibility of information on the status and condition of all types of forests.

14. Financial resources and transfer of technology

Consider financial arrangements and technology transfer mechanisms for sustainable forest management.

Examine the role of assistance efforts in promoting sustainable forest management, taking a careful look at donor coordination in terms both of its multilateral and of its bilateral aspects, the need for rapid international response to national Governments in times of economic or institutional crises related to forests, and the need to focus in an integrated way on sustainable development.

Examine the means for technology transfer and the integration of indigenous knowledge into the mainstream, subject to the provisions of the appropriate intellectual property rights.

Examine relevant means of implementation, including matters related to financing and financial mechanisms and transfer of appropriate environmentally sound technologies, cooperation and capacity-building.

Review ways and means in which technology protected by intellectual property rights can be transferred to developing countries on concessional terms so as to enhance sustainable forest management.

Promote transfer of technology, capacity-building and cooperation under the terms defined particularly by chapter 34 of Agenda 21.

Review financial resources and technology transfer for the conservation management and sustainable development of forest resources.

Assess the special needs of developing countries in respect of transfer, adaptation and development of technologies for the development, sustainable use and protection of forests.

## Annex II

## ATTENDANCE

### Members

| | |
|---|---|
| Antigua and Barbuda: | |
| Australia: | Joanne Disano, Tony Byrne, Alison Russell-French, Rod Holesgrove, Jeannie Ludlow, Tony Kelloway, Mark Gray, Michael Rae |
| Bahamas: | |
| Bangladesh: | Masud Bin Momen |
| Barbados: | |
| Belarus: | |
| Belgium: | |
| Bolivia: | Alejandro Mercado, Gustavo Pedraza |
| Brazil: | Henrique Valle, Adhemar Gabriel Bahadian, Sérgio A. Florençio, Enio Cordeiro, Antonio F. Mello, Marcos Arbizu de Sousa Campos |
| Bulgaria: | Ivan Vladimirov Peitchev |
| Burkina Faso: | Gaettan Rimwanguiya Quedraogo, Prosper Sawadogo |
| Burundi: | |
| Canada: | John Fraser, Piotr Andrezejewski, Ann Cronin-Cossette, Shirley Lewchuk, Jennifer Irish, Judy Huska, Ross Noble, Jag Maini, David Drake, Johanna den Hertog, Jean-Pierre Martel |
| Chile: | Pablo Cabrera, Juan Eduardo Eguiguren, Miguel Angel Gonzalez |
| China: | |
| Ethiopia: | |
| Finland: | Asko Numminen, Riitta Resch, Kirsti Kivela, Pekka Patosaari, Leena Karjalainen-Balk |
| France: | Philippe Delacroix, Christian Barthod |

| | |
|---|---|
| Gabon: | Guy-Marcel Eboumy |
| Germany: | Hans Peter Schipulle, Rainald H. Roesch, Birgit Wolz, Ulrich Hoenisch, Manfred Konukiewitz, Edith Kürzinger-Wiemann, Hagen Frost, Harald Hildebrand, Stefan Schmitz, Uwe Taeger |
| Ghana: | |
| Guinea: | |
| Hungary: | |
| Iceland: | |
| India: | V. L. Chopra |
| Indonesia: | Triyono Wibowo |
| Iran (Islamic Republic of): | Majid Takht-Ravanchi, Hoseein Kamalian, Mohammad Rezah, H. K. Jabbry |
| Italy: | Francesco Paolo Fulci, Alberto Colella |
| Japan: | Takao Shibata, Mujneo Segawa, Shin-ichi Arai, Takeshi Goto, Nozomu Hayashi, Natsuto Sato, Masanori Kobayashi |
| Malawi: | Ngelesi Mwuangulu, Fexton Matupa |
| Malaysia: | Ting Wen Lian, Hussein Haniff, Saw Ching Hong, Thang Hooi Chiew, Chan Lai Har, Lim Eng Siang, Nadzri Yahaya, James Dawos Mamit, Himmat S. Maui |
| Mexico: | Gerardo Lozano, Rafael Martinez-Blanco, Ulises Canchola, Norberto Terrazas |
| Morocco: | Ahmed Amaziane |
| Namibia: | |
| Netherlands: | J. P. Hoogeveen, A. P. Hamburger, J. J. Neeteson, P. R. Schutz, H. Th. Verheij, V. P. A. Vrij, M. K. de Jong, W. C. Turkenburg |
| Pakistan: | Sher Afgan Khan, Mansur Raza |
| Papua New Guinea: | |
| Peru: | Mario López-Chavarri, Italo Acha |

| | |
|---|---|
| Philippines: | José Lino B. Guerrero, Eugenio Inocentes, Wilfrido Pollisco |
| Poland: | Tadeusz Strojwas |
| Republic of Korea: | |
| Russian Federation: | Vladimir A. Zimyanin |
| Senegal: | Kéba Birane Cisse, Seydina Omar Diop, Alioune Ndjouck, Mamadou Yaya Sy |
| Spain: | Ampara Rambla, Elisa Baraona Miguel Aguirre de Carcer |
| Tunisia: | Abderrazak Azaiez, Ghazi Jomaa |
| Turkey: | Mr. Hayati Güven, L. Murat Burhan, H. Avni Karshoglu |
| Uganda: | |
| Ukraine: | Yuri G. Ruban, Anatoliy P. Dembitskiy, Kostyantyn P. Elisseev |
| United Kingdom of Great Britain and Northern Ireland: | Peter Unwin, Martin Holdgate, Brian Oliver, Mr. Ian Symons, Mike Dudley, Chris Yarnell, John Carroll, Ann Grant, Victoria Harris, Jill Barrett, Stephen Gomersall |
| United Republic of Tanzania: | |
| United States of America: | |
| Uruguay: | Victor Canton |
| Venezuela: | |

States Members of the United Nations represented by observers

Algeria, Argentina, Austria, Benin, Colombia, Costa Rica, Cuba, Denmark, Ecuador, Egypt, Haiti, Ireland, Israel, Kenya, Lebanon, Mauritania, New Zealand, Norway, Panama, Paraguay, Portugal, Samoa, Saudi Arabia, South Africa, Sri Lanka, Swaziland, Sweden and Yemen.

Non-member States and entities represented by an observer

Switzerland, European Community.

United Nations Secretariat

United Nations Children's Fund, United Nations Environment Programme, United Nations Development Programme.

Specialized agencies and the General Agreement on Tariffs and Trade (GATT)

Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, World Health Organization, International Monetary Fund.

Intergovernmental organizations

International Tropical Timber Organization, Organisation for Economic Cooperation and Development.

Non-governmental organizations

World Resources Institute (non-governmental organization in consultative status with the Economic and Social Council, category II), Population Communications-International (non-governmental organization in consultative status with the Council, Roster).

## Annex III

## AGENDA

1. Adoption of the agenda and other organizational matters.

2. Integrated planning and management of land resources (Agenda 21, chapter 10).

3. Forests (Agenda 21, chapter 11 and "Forest Principles").

4. Desertification and drought (Agenda 21, chapter 12).

5. Mountains (Agenda 21, chapter 13).

6. Agriculture and rural development (Agenda 21, chapter 14).

7. Biodiversity (Agenda 21, chapter 15).

8. Other matters.

9. Adoption of the report of the Working Group.

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Item 4 of the provisional agenda*

# FINANCIAL RESOURCES AND MECHANISMS

## Report of the Ad Hoc Inter-sessional Working Group on Finance of the Commission on Sustainable Development

(New York, 6-9 March 1995)

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## INTRODUCTION

1. The present report of the Ad Hoc Inter-sessional Working Group on Finance of the Commission on Sustainable Development is not a negotiated text; however, its contents have been thoroughly discussed. Consistent with the terms of reference of the Working Group as determined by the Commission, this report focuses on key issues and conclusions and suggests possible recommendations and policy options for consideration by the Commission at its third session.

2. In response to its mandate, the Working Group reviewed the financing of sustainable development within the context of Agenda 21, 1/ with particular emphasis on the international policy environment and financial flows, national policies and resource mobilization, innovative financial mechanisms, and financing for sectoral and cross-sectoral activities. In addition, the matrix of policy options and instruments was discussed.

3. The discussion of the Working Group was based on the report of the Secretary-General on financial resources and mechanisms for sustainable development: overview of current issues and developments (E/CN.17/1995/8) and background documents, including the report of the second Expert Group Meeting on Financial Issues of Agenda 21 held in Glen Cove, New York (15-17 February 1995), and the Chairman's report of the Workshop on Economic Instruments for Sustainable Development held in Pruhonice, Czech Republic (12-14 January 1995).

4. The Working Group took note of the detailed proposals for action included in the report of the Secretary-General. It discussed those proposals, welcoming some of them and expressing reservations on others, and these have been taken into account in the drafting of this report.

## I. INTERNATIONAL POLICY ENVIRONMENT AND FINANCIAL FLOWS

5. In evaluating recent trends as outlined in the report of the Secretary-General, the Working Group emphasized the need to consider both positive and negative developments surrounding the financing of sustainable development, and highlighted the clearly disappointing performance with regard to current official development assistance (ODA) flows relative to the accepted target of 0.7 per cent of gross national product (GNP), as well as compared with the rather encouraging picture concerning private capital flows.

6. The decline of ODA as a percentage of GNP remains a matter of grave concern. For many developing countries, particularly the least developed countries, ODA represents an important source of external funding. Furthermore, ODA could play a significant role in addressing sustainable development concerns in those areas of the world, as well as those social, environmental and (certain) infrastructural sectors, that currently are not so favourably placed as to attract private financial flows, including foreign direct investment.

7. In this context, the Working Group underlined the need to fulfil all financial recommendations and commitments of Agenda 21, especially those in chapter 33, including the ones related to the provision of substantial and

predictable, new and additional financial resources to the developing countries from all sources, as well as to the need to reach as soon as possible the accepted United Nations target of 0.7 per cent of GNP for ODA, as a means of supporting national efforts in developing countries to achieve sustainable development.

8. The Commission, in its work in monitoring the implementation of recommendations and commitments of Agenda 21 related to ODA, should promote:

(a) New approaches to ODA within relevant bilateral and multilateral mechanisms with the objective of achieving the 0.7 per cent target as soon as possible;

(b) Improved cooperation and coordination among national institutions in recipient and donor countries, international organizations (including financial institutions) and the private sector and the non-governmental organizations, inter alia, through the elaboration of national sustainable development strategies and plans, with a view to enhancing the effectiveness of ODA delivery and use;

(c) Use of ODA to leverage additional domestic and external financial resources, through various innovative schemes (such as co-financing and joint ventures, underwriting of country risks, and venture capital funds) in order to mobilize more efficiently new financial flows for sustainable development from all potential sources. Within this context, the Commission could initiate case-studies of national experiences in this area;

(d) Public and political support in donor countries for raising the levels of ODA, including through highlighting its crucial role for sustainable development.

9. While the magnitude of the recent increases in private flows is clearly impressive, their concentration in a limited number of developing countries and sectors and their stability and sustainability remain a cause for concern and require monitoring and further study. Developed and developing countries should adopt policies to encourage private foreign investment in developing countries that can contribute to sustainable development.

10. Further progress is essential for the achievement of an effective, equitable, development-oriented and durable solution to the external debt problems of a large number of developing countries, particularly the poorest and most heavily indebted among them. Pursuant to the recommendations of General Assembly resolution 49/94, this suggests even more favourable terms of debt relief measures, including a reduction of the stock of debt. In this connection, the Assembly, in its resolution 49/94, encouraged the Paris Club and its members to pursue vigorously efforts to improve the terms applied to the poorest and heavily indebted developing countries, including, where appropriate, a reduction in bilateral official debt sufficient to help them to exit from the rescheduling process and thus contribute to the prospect of those countries to resume growth and development. Recent decisions taken by the Paris Club were also noted.

11. Efforts aimed at increasing the flow of financial resources to developing countries including for the financing of sustainable development should also include a closer and more critical look at the role of international financial institutions (IFIs) and development agencies, including regional development banks.

12. The Working Group emphasized that IFIs (in particular the Bretton Woods institutions) and all relevant development agencies should be encouraged to continue to energize their efforts in support of sustainable development. Specifically, these institutions should further extend their recent efforts, beyond incorporating environmental and social considerations in their projects and activities, by integrating economic, social and environmental goals of sustainability from the outset into their overall development policies, strategy formulation and priority-setting.

13. The Commission and the policy-making bodies of the IFIs and development agencies (in particular the interim and development committees) should be encouraged to strengthen communication, interaction and partnership with a view to promoting approaches and activities geared towards meeting the objectives of sustainable development under Agenda 21.

## II. NATIONAL POLICIES AND RESOURCE MOBILIZATION

14. The Working Group noted that in general the financing of the implementation of Agenda 21 would come from countries' own public and private sectors. A promising opportunity for mobilizing and redirecting domestic financial resources for sustainable development was offered by relevant national policies. In this context, the discussion focused on economic instruments, national environmental funds, the mobilization of private financing and possibilities of international cooperation and consultation in connection with domestic policy reforms. The Working Group emphasized that those measures should not be seen as a substitute for the need for increased international financial flows, including ODA; rather, either channel of financing should supplement and mutually reinforce the other.

15. The review of the use of economic instruments in developed countries, countries with economies in transition and developing countries demonstrated clearly that depending on their specific conditions, they had in varying degrees attempted to achieve a less distortionary tax system by introducing environmental taxes. In some cases, the "greening" of the tax system had been undertaken while the total fiscal burden was kept unchanged (revenue neutrality); in others, the introduction of green taxes had served the dual purpose of raising additional revenues and providing incentives for reducing pollution. In addition, valuable experience was being gained on the use of the various other economic instruments.

16. The underlying philosophy surrounding the use of economic instruments in contrast to that of the traditional regulatory approach, is that economic instruments based on implementing the Polluter Pays Principle use market signals for influencing the behaviour of economic agents, and are efficient in achieving environmental targets, in particular when they are used to complement systems of

environmental standards and regulations. Their efficiency and effectiveness depend, however, on the availability to these economic agents - particularly when they are small, dispersed producers - of information, knowledge and technology.

17. The discussions on economic instruments focused on ways and means of overcoming obstacles to their implementation, such as insufficient political acceptability, difficulties in design and lack of administrative capacity. In addition, conflicts between environmental and other policy considerations (including equity), possible repercussions on international competitiveness, and the economic and structural conditions inviting their application were discussed. The use of new instruments must also be consistent with overall tax reform objectives.

18. The Working Group underscored the importance of strengthening national capacities and capabilities in the use of economic instruments within the context of national strategies and policies for sustainable development. It recommended that capacity-building be supported by Governments and international organizations, in particular the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the United Nations Conference on Trade and Development (UNCTAD), the World Bank and the regional commissions.

19. The Working Group recommends to the Commission that it promote further work on ways and means of applying economic instruments, through studies building on experiences gained, including those of the Organisation for Economic Cooperation and Development (OECD). These studies should also pay attention to the preconditions for introducing economic instruments in accordance with specific country situations.

20. It was agreed that the phasing out of environmentally unfriendly economic practices, in particular input subsidies, needed careful examination, with special attention being paid to distributive problems, especially that of the negative impact on the poor.

21. The review of the usefulness of national environment funds showed that in developed countries, countries with economies in transition and the developing countries, there was a great variety of different types of funds at work. In many countries, those funds play an important and constructive role as effective financial mechanisms. Their role should be evaluated from the perspective of the search for optimal solutions. In this context, particular attention should be given to general concerns with regard to the earmarking of funds.

22. The discussion of mobilizing private financing for sustainable development emphasized the importance of well-functioning domestic and global financial markets. Special attention should be given to the particular problems faced by small- and medium-sized enterprises in raising financial resources for investment in pollution abatement.

23. Further studies are also required to assess the use of tax incentives to promote private investment for sustainable development, in particular in countries with economies in transition and in developing countries.

24. The Working Group recognized that joint studies on some form of international cooperation, keeping in mind the principle of common but differentiated responsibilities, could help overcome concerns about international competitiveness as a result of unilateral implementation of domestic policy reforms aimed at promoting sustainable development. Such studies might be reviewed through flexible, step-by-step consultations that could initially attend to sectors and policies with the most promising opportunities and specific needs for cooperation. Such studies should take place on a voluntary basis and could be organized on a subregional, regional or global level, as appropriate.

25. The Working Group suggests that the Commission provide leadership in developing further proposals for promoting joint studies on the appropriate form of international cooperation in the implementation of policy reforms for sustainable development.

## III. INNOVATIVE INTERNATIONAL MECHANISMS FOR RESOURCE MOBILIZATION

26. The discussion on innovative mechanisms for resource mobilization focused on an environmental-user charge on air transport, internationally tradable carbon dioxide ($CO_2$) permits, joint implementation and debt-for-sustainable-development swaps.

27. It was recognized that the air transport of passengers and cargo represented a source of environmentally damaging emissions. The Working Group would consider it worthwhile to examine in detail a properly designed environmental-user charge on air transport if an in-depth study demonstrated its feasibility. The Working Group recommends that such a study be undertaken in cooperation with the International Civil Aviation Organization (ICAO) and other relevant bodies.

28. The Working Group also recommends that the study should address environmental, economic, legal, administrative and political aspects of such a mechanism. Particular attention should be given to the need for applying the environmental-user charge on air transport to all countries and all air carriers in order to ensure universality, taking into account that any particular charge should not impose an undue burden on developing countries.

29. The discussion on internationally tradable $CO_2$ permits and joint implementation reflected concerns about their complexity in terms of implementation and clarified the fact that work undertaken in this regard should be coordinated with future developments within the context of the United Nations Framework Convention on Climate Change (A/AC.237/18 (Part II)/Add.1 and Corr.1, annex I). The Working Group recommends that interested private parties, encouraged by Governments as appropriate, possibly launch a pilot scheme to gain practical experiences. It could involve developed and developing countries and countries with economies in transition on a voluntary basis in order to create opportunities for higher gains from trade.

30. The Working Group noted successful examples of debt-for-sustainable-development swaps and recommends their further promotion, as appropriate.

## IV. FINANCING FOR SECTORAL AND CROSS-SECTORAL ISSUES OF AGENDA 21

31. The Working Group recognized that many of the sources of finance, economic instruments and innovative mechanisms considered in the report of the Secretary-General on financial resources and mechanisms for sustainable development (E/CN.17/1995/8) were also applicable to financing the sectors, transfer of technology and biotechnology. Nevertheless, detailed study is required to apply the "matrix approach" to identifying the most appropriate mix of instruments and mechanisms (see section V below).

32. The transfer of environmentally sound technology (EST), including on concessional and preferential terms, in accordance with chapter 34 of Agenda 21, was highlighted by the Working Group as having a particularly important role to play in realizing the goals of sustainable development. It was recognized, however, that technology by itself is not enough. There must be a corresponding commitment to capacity-building and to creating the institutional climate and developing the human capabilities required to implement the technology transfer process as a whole.

33. Within this context, future discussions on financing the transfer of ESTs and biotechnology should consider the availability of external financial resources, the adequacy of national policies with regard to creating an appropriate financial infrastructure, fiscal incentives, and the availability of resources from innovative mechanisms, such as co-financing and venture capital funds.

34. Fostering investments in ESTs requires the adoption of favourable policies for business development and the creation of a wider framework to encourage investments in the technology development process, including research, development and adaptation of technology. The particular problems of small- and medium-sized enterprises were emphasized.

35. An effective way to accelerate the financing of EST transfer could be by partnerships between the private and public sector, for example, through publicly funded intermediaries for EST transfer and publicly sponsored investment funds with a focus on ESTs. Venture capital funds were particularly noted. The practical feasibility of establishing EST rights banks should be further studied.

36. The Working Group recommends that the Commission encourage the use of the most effective technologies, as well as the conduct of pilot projects on the practicability of Build-Operate-Transfer (BOT) arrangements for promoting EST transfer, including the building of the capacities of developing countries and countries with economies in transition to negotiate BOT contracts.

37. In addressing the financing of biotechnology, the Working Group considered several funding support mechanisms such as (a) the establishment of an international biosafety trust fund, (b) the establishment of an international venture capital fund for biotechnology, (c) the creation of an expert volunteer corps in biotechnology and (d) increases in ODA. These options require further

study and consultation among interested Governments before concrete proposals can be made to the Commission.

38. In this context, the Working Group welcomed the decision of the Conference of the Parties to the Convention on Biological Diversity to include in its medium-term programme consideration of the knowledge, innovations and practices of indigenous and local communities; to take note of the statement of the Conference of the Parties to the effect that it would also be desirable for future work on the protection of traditional knowledge and practices of indigenous and local communities relevant to conservation and sustainable use to be coordinated with the relevant bodies; and to welcome the progress made in revising the International Undertaking on Plant Genetic Resources for food and agriculture which related to outstanding matters concerning plant genetic resources, including access to ex situ collections and the question of farmers' rights.

## V. MATRIX OF POLICY OPTIONS AND INSTRUMENTS

39. The Working Group took note of an expert's presentation on the application of the matrix included in the report of the Secretary-General on financial resources and mechanisms for sustainable development (E/CN.17/1995/8) as a transparent conceptual framework for structuring discussions on the financing aspects of Agenda 21. It examined the use of economic instruments and the implementation of alternative policy options associated with sectoral studies in an integrated manner. There was general agreement that the analytical framework presented by the matrix was illustrative, would help in integrating the application of the range of financial instruments and policy options with individual sectors and cross-sectoral activities, and could prove valuable in identifying the appropriate and most promising options, as well as their complementarity, taking into account the principle of common but differentiated responsibilities.

40. In applying the matrix, the discussion stressed that it would be necessary to take into account specific national, regional and subregional conditions. It emphasized that the social, economic and distributive effects arising from the application of different policy options needed to be carefully evaluated. In this regard, the Commission should encourage the launching of pilot projects for specific countries or groups of countries as well as for selected sectoral and cross-sectoral activities.

41. The Working Group agreed that the matrix approach deserved further detailed studies, including efforts at making the analysis more pragmatic and comprehensive, and at quantifying the potential resources generated through the use of different economic instruments as well as from policy reform measures. These studies should exploit the full potential of the matrix as an analytical tool to assist policy makers, inter alia, in examining the appropriate role of public and private actors, and ways and means of promoting interaction and cooperation between them. The Commission should encourage Governments, United Nations organizations, international finance institutions, academic and research communities and other actors, including the private sector, to support, and participate in, these efforts.

## VI. KEY PROPOSALS FOR ACTION

42. The Working Group recommends that the Commission act, inter alia, on the key proposals set forth below, taking into account the more detailed considerations contained in the paragraphs above. Their elements are as follows:

(a) To monitor, review and promote the implementation of all financial recommendations and commitments of Agenda 21, including the reaching as soon as possible of the accepted target of 0.7 per cent of GNP for ODA. In particular, new approaches to ODA should be explored, including through improved cooperation and coordination aimed at raising the levels and effectiveness of ODA delivery and use; using ODA to leverage financial resources from all potential sources; and mobilizing public and political support in donor countries for raising the levels of ODA;

(b) To urge developed countries, taking fully into account the provisions of General Assembly resolution 49/94, to take appropriate new steps towards a durable solution to the external debt problem of developing countries, taking note, inter alia, of the recent decisions taken by the Paris Club;

(c) To further promote the use of debt-for-sustainable-development swaps as appropriate;

(d) To encourage international financial institutions and development agencies, in particular the Bretton Woods institutions, to continue to energize and expand their efforts in support of sustainable development. The Commission and the policy-making bodies of the IFIs and development agencies should cooperate in meeting the objectives of sustainable development;

(e) To encourage Governments, relevant international organizations and the private sector to undertake further work with regard to the application of economic instruments, including tax reforms and the phasing out of environmentally unfriendly economic practices, in accordance with the conditions, needs and priorities of each country and giving full consideration to their potential environmental, economic and social impacts. Such actions could be carried forward by way of workshops for sharing national experiences;

(f) To promote capacity-building in the development and implementation of national strategies and policies for sustainable development including in the use of economic instruments, with the support of Governments and relevant international organizations;

(g) To provide leadership in undertaking joint studies to develop further proposals to promote cooperation (keeping in mind the principle of common but differentiated responsibilities) in the implementation of nationally determined policy reforms through some form of voluntary consultative process that is flexible, and would proceed in stages and address the sectors and policies that offer the most promising opportunities for environmental, social and economic gains;

(h) To recommend the preparation, in cooperation with ICAO and other appropriate bodies, of a detailed study on an environmental-user charge on air transport to assess its practical feasibility;

(i) To encourage interested private parties, facilitated by Governments as appropriate, to launch on a voluntary basis a pilot scheme on internationally tradable $CO_2$ permits in order to acquire practical experience, without prejudice to the outcome of the sessions of the Conference of the Parties to the United Nations Framework Convention on Climate Change;

(j) To promote the implementation of all the recommendations and commitments of Agenda 21 for the transfer of environmentally sustainable technology. Future discussions on financial aspects of environmentally sound technologies and biotechnology should consider the need for external financial resources, the adequacy of national policies with regard to creating an appropriate financial infrastructure, fiscal incentives and the potential availability of resources from innovative mechanisms, such as co-financing and venture capital funds;

(k) To strengthen capacities, in particular of developing countries, to assess, develop, apply and manage environmentally sound technologies tailored to the countries' own needs and priorities. In this connection, the Commission should promote a detailed study on the practical feasibility of establishing environmentally sound technology rights banks and further examine the practicability of BOT approaches for promoting environmentally sound technologies transfer;

(l) To promote a detailed study of the matrix approach, including quantification and potential resource mobilization for sustainable development of developing countries, taking into account the social, economic and distributive impacts of instruments and policy options;

(m) To continue to provide leadership in encouraging Governments and organizations to launch specific initiatives aimed at supporting and enriching its work in connection with the financing of sustainable development;

(n) To encourage, so as to enhance the effectiveness of its work programme, the Working Group to involve IFIs and development agencies and, as far as is practicable, private enterprise, research organizations, and non-governmental organizations, in the seeking out of valuable national experiences as case-studies, the encouraging of informal technical group meetings and the conduct of pilot projects.

## VII. ORGANIZATIONAL MATTERS

### A. Opening and duration of the session

43. The Working Group met at United Nations Headquarters from 6 to 9 March 1995, in accordance with Economic and Social Council decision 1993/314 of 29 July 1993. The Working Group held 8 meetings (1st to 8th).

44. The session was opened by the Vice-Chairman of the Commission on Sustainable Development, Mr. Sérgio Florençio (Brazil).

45. The Chairman of the Working Group, Dr. Lin See-Yan (Malaysia), made an opening statement.

46. An introductory statement was made by the Director of the Division for Sustainable Development of the Department for Policy Coordination and Sustainable Development of the United Nations Secretariat.

## B. Attendance

47. Representatives of 36 States members of the Commission on Sustainable Development attended the session. Observers for other States Members of the United Nations and for non-member States and the European Community, representatives of organizations of the United Nations system and observers for intergovernmental and non-governmental organizations also attended. The list of participants is contained in annex I to this report.

## C. Election of officers

48. At the 1st meeting, on 6 March 1995, the Working Group re-elected by acclamation Dr. Lin See-Yan (Malaysia) as Chairman.

## D. Agenda and organization of work

49. At the 1st meeting, on 6 March 1995, the Working Group adopted its provisional agenda (contained in annex II to this report) as set forth in document E/CN.17/ISWG.II/1995/1.

## E. Documentation

50. The Working Group had before it the report of the Secretary-General on financial resources and mechanisms for sustainable development: overview of current issues and developments (E/CN.17/1995/8), as well as a number of background papers.

## Notes

1/ Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992, vol. I, Resolutions Adopted by the Conference (United Nations publication, Sales No. E.93.I.8 and corrigendum), resolution 1, annex II.

Annex I

ATTENDANCE

Members

| | |
|---|---|
| Antigua and Barbuda: | |
| Australia: | Joanne Disano, Alison Russell-French, Tony Kelloway, Mark Gray, Michael Rae |
| Bahamas: | |
| Bangladesh: | Masud Bin Momen |
| Barbados: | |
| Belarus: | |
| Belgium: | |
| Bolivia: | Alejandro Mercado, Gustavo Pedraza |
| Brazil: | Henrique Valle, Adhemar Gabriel Bahadian, Sérgio A. Florençio, Antonio Fernando Crujz de Mello |
| Bulgaria: | Evdokia Ivanova Maneva |
| Burkina Faso: | Gaëtan Rimwanguiya Ouédraogo, Prosper Sawadogo |
| Burundi: | Nuni Bonaventure |
| Canada: | Claude Baillargeon, Alain Tellier, Craig Ferguson, Ross Noble |
| Chile: | Juan Larrain, Miguel Angel Gonzalez |
| China: | Zhong ShuKong, Wang Xiaolong |
| Ethiopia: | |
| Finland: | Markku Aho |
| France: | |
| Gabon: | Guy-Marcel Eboumy |
| Germany: | Hans Peter Schipulle, Rainald H. Roesch, Knujt Beyer, Ulrich Hoenisch, Uwe Taeger |
| Ghana: | |

| | |
|---|---|
| Guinea: | |
| Hungary: | |
| Iceland: | |
| India: | Arvind Virmani |
| Indonesia: | I. G. Ngurah Swetja, Triyono Wibowo |
| Iran (Islamic Republic of): | Majid Takht-Ravanchi, Hossein Kamalian, Mohammad Reza H. K. Jabbary |
| Italy: | Francesco Paolo Fulci, Alberto Colella, Paola Pettinari |
| Japan: | Takao Shibata, Hikaru Kobayashi, Ainosuke Kojima, Nobuaki Ito, Masanori Kobayashi |
| Malawi: | N. M. Mwaungulu, F. D. J. Matupa |
| Malaysia: | Ting Wen Lian, Lin See Yan, Hussein Haniff, Saw Ching Hong, Lim Eng Siang, Singh Himmat, Mamit James |
| Mexico: | Gerardo Lozano, Rafael Martinez Blanco, Ulises Canchola |
| Morocco: | Ahmed Amaziane |
| Namibia: | |
| Netherlands: | C. W. M. Lander, A. P. Hamburger, V. P. A. Vrij |
| Pakistan: | Jamsheed K. A. Marker, Kazi Asad Abid, Mansur Raza |
| Papua New Guinea: | |
| Peru: | Mario López-Chavarri, Italo Acha |
| Philippines: | José Lino B. Guerrero, Eugenio Inocentes, Wilfrido Pollisco |
| Poland: | Maciej Nowicki, Piotr Sikorski, Marek Sobiecki, Barbara Mahler |
| Republic of Korea: | |
| Russian Federation: | Vassily A. Nebenzia |
| Senegal: | Kéba Birane Cisse, Seydina Oman Diop, Alioune Ndiouck, Mamadou Yaya Sy |

| | |
|---|---|
| Spain: | Alicia Montalvo, Miguel Aguirre de Carcer |
| Tunisia: | Khalil Attia, Abderrazak Azaiez, Ghazi Jomaa |
| Turkey: | Hayati Güven, L. Murat Burhan, H. Avni Karslioglu, Erdal A. Onursal, Sedat Yamak |
| Uganda: | Odyek Agona |
| Ukraine: | Yuri G. Ruban, Anatoliy P. Dembitskiy, Kostyantyn P. Elisseev |
| United Kingdom of Great Britain and Northern Ireland: | Peter Landymore, Victoria Harris |
| United Republic of Tanzania: | |
| United States of America: | Mark Hambley, John McGuinness, David Ogden |
| Uruguay: | |
| Venezuela: | |

States Members of the United Nations represented by observers

Algeria, Argentina, Austria, Benin, Costa Rica, Côte d'Ivoire, Cuba, Czech Republic, Denmark, Ecuador, Egypt, Guatemala, Ireland, Israel, Kenya, Lebanon, Mauritania, New Zealand, Norway, Paraguay, Portugal, Romania, Samoa, Saudi Arabia, Slovakia, Sri Lanka, Swaziland, Sweden, Syrian Arab Republic and Yemen.

Non-member States represented by an observer

Switzerland and the European Community.

United Nations Secretariat

United Nations Children's Fund, United Nations Conference on Trade and Development, United Nations Development Programme.

Specialized agencies and General Agreement on Tariffs and Trade (GATT)

Food and Agriculture Organization of United Nations, United Nations Educational, Scientific and Cultural Organization, International Civil Aviation Organization, World Health Organization, World Bank, International Monetary Fund.

International organizations

Organisation for Economic Cooperation and Development.

Non-governmental organizations

National Wildlife Federation (in consultative status with the Economic and Social Council, category II); Population Communications-International (in consultative status with the Economic and Social Council, Roster); World Citizens Assembly and Society for Conservation and Protection of the Environment (organizations accredited to the Commission on Sustainable Development).

## Annex II

## PROVISIONAL AGENDA

1. Adoption of the agenda and other organizational matters.

2. International policy environment and financial flows:

   (a) Changes in the external environment;

   (b) Trends in resource flows and debt;

   (c) The Bretton Woods institutions and the financing of sustainable development.

3. National policies and resource mobilization:

   (a) Applying economic instruments;

   (b) Improving the operation of national environmental funds;

   (c) Promoting the role of the private sector in the financing of sustainable development;

   (d) Aiming at international coordination of national sustainable development.

4. Innovative international mechanisms for resource mobilization.

5. Financing for sectoral and cross-sectoral issues of Agenda 21.

6. Matrix of policy options and instruments.

7. Other matters.

8. Adoption of the report of the Working Group.

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# GENERAL DISCUSSION ON PROGRESS IN THE IMPLEMENTATION OF AGENDA 21, FOCUSING ON CROSS-SECTORAL ISSUES AND THE CRITICAL ELEMENTS OF SUSTAINABILITY

## Trade, environment and sustainable development

## Report of the Secretary-General

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## INTRODUCTION

1. The present report describes progress made in the implementation of the objectives related to trade, environment and sustainable development set out in chapter 2 of Agenda 21 - in particular, programme areas A (Promoting sustainable development through trade) and B (Making trade and environment mutually supportive) 1/ - since the United Nations Conference on Environment and Development held in June 1992. It makes special reference to the relevant discussion by the Commission on Sustainable Development at its second session. 2/ The report was prepared by the secretariat of the United Nations Conference on Trade and Development (UNCTAD) as Task Manager for Sustainable Development and Trade Issues, in accordance with arrangements agreed by the Inter-Agency Committee on Sustainable Development at its fourth session. It is the result of consultation and information exchange with designated focal points in United Nations agencies, government officials and a number of other individuals. The report builds considerably on work undertaken by the World Trade Organization (WTO), UNCTAD, the United Nations Environment Programme (UNEP) and elsewhere. It complements the reports submitted by the secretariats of UNCTAD, UNEP and WTO on their own activities.

2. With a view to assisting the Commission in ensuring appropriate coordination and cooperation among the relevant international forums, section I below reviews some institutional issues, paying particular attention to the progress achieved in several international forums since the second session of the Commission and existing cooperation among the secretariats of the corresponding organizations. It also refers to transparency and the involvement of the public and experts. Section II provides an overview of the principal linkages between trade and environmental policies, identifying in each case the principal issues as they emerged from Agenda 21 and the debate by the Commission during its second session. It also indicates what are the principal conceptual and empirical questions involved and how the issues are being addressed in different forums. Finally, each section raises a number of policy questions which the Commission may wish to address. Section III is on capacity-building. The summary and recommendations are contained in section IV.

## I. PROGRESS IN THE IMPLEMENTATION OF WORK PROGRAMMES

### A. International organizations

3. Since the second session of the Commission, progress has continued to be made in international forums, in particular in WTO, UNCTAD and UNEP, in the implementation of work programmes on trade, environment and sustainable development. The establishment of the WTO Committee on Trade and Environment and the UNCTAD Ad Hoc Working Group on Trade, Environment and Development gave further impetus to this work. In response to a request made by the Commission on Sustainable Development, at its second session, UNCTAD and UNEP co-hosted a high-level, informal meeting on trade, environment and sustainable development.

4. The WTO Committee on Trade and Environment was established in January 1995, following the decision on trade and environment adopted at the conclusion of the

Uruguay Round negotiations in Marrakesh. The Committee will identify the relationship between trade measures and environmental measures in order to promote sustainable development and make appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required, compatible with the open, equitable and non-discriminatory nature of the system. The Committee, which was created in January 1995 and held its first meeting in February 1995, will make recommendations to the first biennial meeting of the WTO Ministerial Conference, to be held in Singapore in December 1996. Progress had already been made in the Subcommittee on Trade and Environment of the Preparatory Committee for WTO, which worked through December 1994.

5. The Ad Hoc Working Group on Trade, Environment and Development was established by the UNCTAD Trade and Development Board to examine, with a view to promoting sustainable development, the interlinkages between trade, environment and development and related policies, paying particular attention to the problems and special circumstances of the developing countries, including the least developed among them. The Working Group initiated its deliberations at the end of 1994. In addition, at the first part of its forty-first session (September 1994), the Board held deliberations on the impact of environment-related policies on export competitiveness and market access. UNCTAD also continued its policy analysis on trade, environment and development. Its conceptual and empirical work involves research institutes in developing countries and contributes to reflecting developing country concerns in the international debate on trade and environment. 3/

6. Trade and environment-related issues are also under consideration in UNCTAD's Standing Committee on Commodities. In accordance with a wide-ranging work programme, at its third session the Committee discussed means by which the competitiveness of natural products with environmental advantages could be improved. At the fourth session, it will undertake an examination of the manner in which prices of natural products and their synthetic competitors could reflect environmental costs.

7. UNEP continued its analysis of legal, scientific and economic aspects of trade and environment links. It dealt with various international environmental agreements and their relationship to trade rules, the relationship between environmental risk assessment and trade policy, the role of scientific evidence in trade/environment issues and the harmonization of assessment procedures. UNEP is convening a series of technical meetings on trade and environment issues, covering, inter alia, environmental reviews of trade policy, dispute avoidance regimes, international environmental agreements and trade policy, and standards equivalency in relationship to eco-labelling. In addition to a joint UNEP/UNCTAD technical training workshop held in Nairobi on trade and environment for African countries, UNEP is planning to convene a series of regional workshops to increase environmental awareness and policy coordination with trade policy.

8. FAO is pursuing trade, environment and sustainable development issues in the context of the work in its various intergovernmental groups. Recognizing the lack of solid data on which to base specific environmental policy decisions with regard to agricultural commodities, the Committee on Commodity Problems at

its fifty-ninth meeting in 1993 encouraged Groups that had not done so to initiate work on trade policy measures relating to the environment relevant the agricultural commodities that the groups address and to assess their impact on trade flows. It also encouraged them to undertake commodity-by-commodity studies, including a technical environmental review and an economic assessment of the costs of environmental damage, on the implications of adopting environmental as well as Sustainable Agricultural and Rural Development (SARD) policies and on the national and international support required by countries that adopt such policies. 4/

9. The Organisation for Economic Cooperation and Development (OECD) is maintaining a multifaceted work programme on trade and environment, coordinated by its Joint Session of Trade and Environment Experts. The goals are to promote fuller integration of trade and environmental policy-making in national capitals; bridge gaps in understanding and communication between the trade and environmental communities; and provide analyses and perspectives in support of related work carried out by other international organizations. A set of four procedural guidelines were issued in June 1993, covering transparency and consultation, environmental and trade reviews, international cooperation, and dispute resolution; and a report on OECD member country responses to the guidelines and on the results of the Joint Session's work programme overall will be presented to the OECD Ministerial Council in late May 1995.

10. The Commission, at its second session, emphasized the need for close cooperation and complementarity in the work of the General Agreement on Tariffs and Trade (GATT)/WTO, UNCTAD and UNEP, and for appropriate contributions from other organizations involved, such as the United Nations Development Programme (UNDP), the World Bank and OECD. Since the second session of the Commission, the secretariats of the different organizations have further strengthened their cooperation and coordination of work. For example, UNCTAD and UNEP started to implement their joint programme of work on 10 issues related to linkages between trade, environment and sustainable development. 5/

11. As requested by the Commission at its second session, UNCTAD and UNEP co-hosted a high-level informal meeting on trade, environment and sustainable development (21-22 November 1994, Geneva), following up on a similar meeting held in February 1994. The meeting facilitated a policy dialogue on the complex relationship between international trade liberalization, environmental management, and sustainable development. The report on the meeting has been submitted to the Commission.

12. The UNCTAD/UNEP meeting also provided an opportunity for assessing existing cooperation and coordination modalities among the different organizations and identifying opportunities for further strengthening institutional cooperation and coordination on trade, environment and sustainable development. At the meeting it was felt that the work done by UNCTAD and UNEP was complementary to that done by WTO. Many participants drew attention to the effective cooperation between the secretariats of the GATT/WTO, UNEP and UNCTAD, which had managed to avoid duplication and to make important contributions in accordance with their respective mandates and expertise. Some suggested that such arrangements at the secretariat level should continue in an informal manner, particularly since more analytical and conceptual work on trade/environment/sustainable development

linkages was required. With regard to policy analysis, UNCTAD and UNEP were encouraged to undertake further conceptual and empirical analysis in areas related to the trade/environment discussions at WTO and elsewhere.

13. Close coordination and cooperation between intergovernmental organizations was enhanced by providing other organizations with observer status to the relevant intergovernmental bodies. For example, WTO extended observer status in the WTO Committee on Trade and Environment to the Commission, UNCTAD, UNEP, the United Nations, UNDP, the Food and Agriculture Organization of the United Nations (FAO), the International Monetary Fund (IMF), the International Trade Centre (ITC), the World Bank, OECD and the European Free Trade Association (EFTA). Similarly, the secretariats of the Commission, UNEP, WTO, ITC, FAO, UNDP, OECD and other intergovernmental organizations are actively participating in the UNCTAD Ad Hoc Working Group on Trade, Environment and Development.

## B. Transparency and the involvement of the public and experts

14. The Commission, at its second session, highlighted the importance of achieving transparency, openness and the active involvement of the public and experts in relation to work on trade and environment, including that being done in WTO, UNEP and UNCTAD, and to processes for settling disputes.

15. Non-governmental organizations have continued to show a strong interest in trade, environment and sustainable development linkages. Important contributions have been made in such areas as awareness-building, public education and consensus-building. A large number of workshops, seminars and publications have contributed to a better understanding of many of the issues. 6/ There is also a growing number of international research projects on trade, environment and development linkages, involving research institutes in developed and developing countries. 7/ A noteworthy example is the set of trade and sustainable development principles prepared by a group of international experts under the coordination of the International Institute for Sustainable Development, which were endorsed by the High-level Advisory Board on Sustainable Development.

16. Some steps have been taken to increase the interaction between intergovernmental organizations and major groups. Coinciding with the start of a new phase of work on trade and environment in GATT/WTO, the GATT secretariat hosted a public symposium on trade, environment and sustainable development (Geneva, 10-11 June 1994). Around 300 people participated. The two principal objectives were to provide information on the work under way in GATT/WTO on trade and environment and to bring together recognized experts in the field to examine and debate the role that trade policies can play in environmental protection and conservation and in accelerating sustainable development. 8/ Pursuant to article V of the WTO Agreement, consultations have been taking place among WTO members on appropriate relations with non-governmental organizations. OECD has held informal consultations on trade and environment issues with representatives of environmental and industrial groups for the past four years.

17. The United Nations, including the secretariats of UNCTAD and UNEP, has recognized the importance of working closely with non-governmental organizations from developing and developed countries and with the private sector. With regard to the latter, UNEP will produce a background paper in 1995 on the role of the private sector in trade/environment issues. A number of non-governmental organizations are participating in the UNCTAD Ad Hoc Working Group on Trade, Environment and Development. In May 1994, UNEP hosted a round table for approximately 23 non-governmental organizations from South, Central and North America and the Caribbean to discuss the links between trade and sustainable development.

18. Attention has also been given to transparency in the context of the dispute/settlement mechanism in WTO, which may be called on to resolve disputes when trade issues are involved. The contracting parties may request consultation and mediation or, if those are not successful in resolving the dispute, the establishment of a panel. WTO gives each panel an opportunity to seek information and technical advice from relevant individuals or bodies. Panels may also consult experts for their opinions. This would apply to experts in the field of environment in the event of a dispute on trade-related environmental measures. On a scientific or other technical matter, the panel may request an advisory report in writing from an expert review group.

19. The High-Level Advisory Board on Sustainable Development, the Tokyo Conference on Global Environmental Action and several non-governmental organizations have proposed the establishment of a panel of experts from the trade, environment and development communities, the business sector and the secretariats of international organizations working on trade, environment and sustainable development issues.

## II. GENERAL OVERVIEW

20. With the growing integration of the world economy, domestic policies, including environmental policies, may increasingly have consequences on international trade. With regard to product standards and regulations, during the Uruguay Round negotiations Governments strove to achieve a balance between the rights of countries to establish an appropriate level of environmental protection and the need to avoid unnecessary adverse impacts on trade. In the context of its work programme, the WTO Committee on Trade and Environment is examining certain requirements for environmental purposes relating to products, including packaging, labelling and recycling, for which WTO rules may not be well adapted. A certain amount of attention has focused on the effects of environmental policies on competitiveness. The focus of attention on process standards, also known as process and production methods, seems to be shifting from such issues as "eco-dumping" and "pollution havens" to the search for positive measures aimed at supporting developing countries and countries in transition in their initiatives to enhance environmental protection. Apart from product- and process-specific measures, other environmental policies can be implemented which aim at correcting policy or market failures with a view to internalizing environmental externalities. With regard to global environmental problems, the debate has primarily focused on the use of trade measures in the framework of multilateral environmental agreements and their relationship with

WTO rules - in particular where such measures are applied to non-Parties - and on the use of unilateral measures in case such agreements have not been established. Finally, environmental factors may also create trading opportunities for environmental goods and services and "environment-friendly" products. The environmental effects of trade policies involve a number of issues. Further trade liberalization is a necessary but not sufficient condition for sustainable development. Trade liberalization may have positive as well as negative environmental effects. Where trade liberalization would have negative environmental effects, accompanying policies are required. These issues are discussed below.

## A. Product measures and market access

### 1. The issues

21. Product-related environmental measures which address the effects of consumption externalities on the environment of the importing country by specifying product characteristics clearly fall under the ambit of the WTO Agreement on Technical Barriers to Trade. The Agreement allows countries to establish an "appropriate" level of environmental protection, but requires that measures be enforced in accordance with WTO rules, including national treatment and non-discrimination. Other provisions of the Agreement are transparency and technical assistance.

22. While international trade rules are relatively well established with regard to technical standards and regulations on product characteristics, policies have emerged for which WTO rules may not be well adapted - i.e., eco-labelling, certain packaging requirements and measures aimed at promoting recycling. In the area of packaging, WTO is familiar with measures that stipulate what kinds of packaging can (or cannot) be used in a particular market, but it is less familiar with those that prescribe the recovery, reuse, recycling or disposal of packaging once it has served its original purpose.

23. Although primarily aimed at environmental objectives, there is concern that such policies may at times have unintended effects on trade. It is important to analyse the potential effects of these policies on developing countries. Where there are potentially negative effects on trade, it is important to analyse whether increased transparency and strengthened international cooperation could be established and whether rules similar to those in the TBT Agreement could be extended to cover those policies.

### 2. Conceptual and empirical questions

24. Although it is recognized that product-specific policies may entail adjustment costs to foreign producers, there is no systematic information on the incidence of such measures on trade or their impact on developing countries. There is some evidence that, although mandatory product-specific environmental requirements are still relatively scarce in most sectors, in specific sectors the effects of such requirements on trade may be significant, in particular for small and medium-sized firms from developing countries. More analysis is

required to assess the effects of packaging requirements and recycling policies, with a view to avoiding unnecessary adverse impacts on trade.

25. There is some concern that the effects of the proliferation of eco-labelling programmes may create certain problems for foreign producers, who have to obtain information and adjust to the requirements of different programmes if they want to apply for eco-labels. Developing countries are becoming more exposed to the effects of eco-labelling in the OECD countries since some of the new product categories that are being selected for eco-labelling are of export interest to them. In addition, in the case of these product categories, criteria often refer to materials and production processes, which it may be difficult for foreign producers to comply with. Criteria based on the environmental conditions of the importing country may be environmentally inappropriate, given the local conditions in the country of production. There is a need to avoid discrimination and adverse effects on trade. More work is also needed on concepts such as mutual recognition and equivalences.

### 3. Ongoing work in international organizations

26. Since 1962, FAO and WHO have been cooperating in a joint programme on food standards, the principal organ of which is the Codex Alimentarius Commission. The Uruguay Round Agreement on Sanitary and Phytosanitary Measures holds that the health-related Codex standards, guidelines and recommendations represent the international consensus necessary for the protection of human health in relation to food safety. Consequently, the Codex standards, guidelines and recommendations will now serve as the basis of national requirements as far as international food trade is concerned. 9/

27. The WTO Committee on Trade and Environment is, inter alia, examining the effect of environmental measures on market access, especially in relation to developing countries and, in particular, to the least developed among them. Deliberations were initiated by the Sub-Committee on Trade and Environment of the Preparatory Committee for the WTO. The Trade and Development Board discussed the impact of environment-related policies on export competitiveness and market access. 10/

28. The UNCTAD Working Group on Trade, Environment and Development has been deliberating on eco-labelling 11/ and, in accordance with its terms of reference, will also identify and analyse emerging environmental policy instruments with a trade impact, bearing in mind the need for international cooperation for ensuring transparency and coherence in making environmental and trade policies mutually supportive. At its second session, from 6 to 9 June 1995, the Working Group will discuss the trade, environment and developmental aspects of establishing and operating eco-labelling schemes. The UNCTAD secretariat organized a workshop on Eco-labelling and international trade (Geneva, 28-29 June 1994) as part of a technical cooperation project funded by IDRC.

29. The GATT Working Group on Environmental Measures and International Trade has worked on clarifying the trade effects of eco-labelling and packaging and analysing whether such effects might differ from those of the technical

standards and regulations that are more familiar to GATT contracting parties through the Agreement on Technical Barriers to Trade.

30. Several other international organizations are undertaking work on eco-labelling. Discussions in the OECD Joint Session on Trade and Environment have focused on issues such as life-cycle management and process and production methods. The OECD Workshop on Life-cycle Management and Trade (July 1993) looked at the trade implications of OECD packaging, eco-labelling and recycling initiatives, and OECD, in cooperation with the UK Department of Trade and Industry of the United Kingdom of Great Britain and Northern Ireland and the United Kingdom Eco-labelling Board organized a workshop on eco-labelling and international trade (6-7 October 1994).

31. UNEP's work on eco-labelling concentrates on mutual recognition and equivalency issues in connection with existing international environmental standards and on the preparation of policies and research related to the selection of criteria and the environmental effectiveness of eco-labelling schemes. UNEP continues to cooperate with UNCTAD in examining trade-related issues of eco-labelling.

32. The International Standards Organization (ISO) - in particular, its Technical Committee 207 - is preparing three international standards concerning environmental labelling. They will consist of guiding principles aimed at ensuring the credibility and non-discriminatory character of environmental labelling.

33. At the level of industrial subsectors, UNIDO has undertaken an examination of technical guidelines for international eco-labelling schemes. The first initiative was taken with the leather and leather products industry, for which UNIDO organized a meeting of industry experts from developed and developing countries (3-4 October 1994). The experts examined various eco-labelling schemes and asked UNIDO to draw up technical criteria for eco-labelling based on existing schemes and in consultation with concerned intergovernmental and non-governmental bodies and appropriate technical institutions. UNIDO will be pursuing this work in 1995 and, based on its experience with the leather and leather products industry, will take up the issue of technical guidelines in other industry subsectors of concern to developing countries.

## 4. Policy questions

34. Product standards, even international ones, may at times involve onerous adjustment costs for developing countries. Ex-ante transparency, dissemination of information, technical assistance, and technological cooperation are important, particularly when there may be a negative trade impact from such standards.

35. In the area of packaging and recycling policies, adverse effects on developing countries can be avoided or mitigated by ensuring sufficient recycling facilities for materials used by exporters from developing countries and by providing technical assistance aimed at improving the recyclability or reuse of such materials. Special attention could be given to the production of

and the trading opportunities for environment-friendly materials from developing countries, such as jute (see sect. E below).

36. Several possibilities have been examined for taking into account the interests of foreign producers, including those from developing countries, in the elaboration of eco-labelling criteria. In the short run, it seems useful to improve transparency and to exercise care in applying criteria on process and production methods in product categories where imports, particularly from developing countries, are predominant. In the longer run, exploring the scope for "equivalencies" and mutual recognition between eco-labelling schemes seems a useful approach. UNEP and UNCTAD are cooperating on these issues.

## B. Process standards and competitiveness

### 1. The issues

37. More stringent process requirements generally result in environmental benefits, provided that the specific environmental and developmental situation in each country is taken into account. There may also be long-term economic benefits by protecting human health and productivity at the national level. In certain cases process standards may enhance competitiveness of regulated firms - for example, by inducing pollution prevention measures, ranging from better household practices to technological innovations resulting in new production processes. However, since the costs of compliance are borne by individual firms, increased costs of production associated with process standards might adversely affect the competitiveness of firms in countries where process standards are more stringent - or better enforced - than in other countries.

38. From an environmental point of view, concern is sometimes voiced that competitiveness issues may prevent the introduction of more stringent environmental standards. Thus questions regarding "implicit" subsidies, "eco-dumping", and "environmental" countervailing duties in order to "level the competitive playing field" may arise.

39. Empirical analysis suggests that the overall competitiveness effects of generally higher environmental standards have not as yet played a major role in competitiveness. Studies show little evidence that "dirty" industries have migrated because of differences in environmental requirements across countries. There is no hard evidence of "eco-dumping". 12/ Moreover, strategic policies aimed at obtaining short-term economic benefits by deliberately setting standards at an artificially low level, or not enforcing them, are unlikely to be practised on a rational basis. Maintaining lax environmental standards and enforcement may entail greater costs in abatement, resource degradation and depletion in the future.

40. Seeking cost-effective solutions and innovative ways of moving towards more stringent process requirements is of key importance. There is growing recognition that measures that support developing countries and countries in transition in their efforts to enhance environmental protection, taking into account their environmental and developmental conditions, would further reduce potential friction, apart from bringing environmental benefits.

## 2. Conceptual and empirical questions

41. Empirical analysis suggests that the overall competitiveness effects of generally higher environmental standards have been small. 13/ More work is needed, however, to analyse the effects of more stringent environmental standards in specific cases and sectors. As noted by the Commission, at its second session, such work should take into account the facts that there are legitimate reasons for diversity in environmental regulations across countries, and that differences in the relative costs of production constitute the very basis for gains from international trade.

42. The cost of compliance with specific standards may be higher, in relative terms, for firms in developing countries - for example, due to lack of technologies and infrastructure or to differences in environmental conditions and priorities. 14/ More work is needed on the differential effects of environmental standards on developed and developing countries.

43. Although international trade rules do not allow countries to impose domestic process standards on imported products, process and production methods are nevertheless gaining importance in the context of international trade. Consumers and processing industries in the developed countries sometimes require information on such methods or request foreign suppliers to use specific methods or raw materials. Thus, the environmental quality of products and production processes may become more important as a factor of international competitiveness and may increasingly influence business strategies. 15/ Adjustments to the environmental requirements of foreign clients may be beneficial to the environment if they are also appropriate in the context of the economic, technological and environmental conditions in the country of production. However, specific methods, which are based on environmental conditions and priorities in the importing country, may at times be irrelevant and environmentally inappropriate in the producing country.

44. Case-studies undertaken under joint UNCTAD/UNDP and UNCTAD/UNEP projects have revealed the need to undertake further analysis of the differential impacts of environmental standards on small and large firms. Small firms have more difficulty in gaining access to information, technology and capital. And economies of scale may be significant in environmental investment. The case-studies report further on various domestic initiatives undertaken to improve process and production methods.

## 3. Ongoing work in international organizations

45. Process standards and regulations and their effects on trade and competitiveness have been discussed in UNCTAD and OECD. Some of the deliberations at the first part of the forty-first session of the Trade and Development Board, on the impacts of environment-related policies on export competitiveness and market access, focused on this matter. Deliberations will be continued in the Ad Hoc Working Group on Trade, Environment and Development, at its second session.

46. Work on process and production methods has also been carried out in OECD - in particular, by the Joint Session of Trade and Environment Experts. OECD organized a workshop on this issue, hosted by the Government of Finland, in April 1994. It has developed a conceptual framework for analysing the motivations and rationale for using trade restrictions based on the process and production methods of a product. 16/

47. Recognizing the general lack of appropriate methodologies to measure the trade effects of product or process-related environmental measures, the FAO Committee on Commodity Problems will meet (3-7 April 1995) to consider a methodology based on differences in the costs of compliance with environmental measures in different countries. 17/

48. With a view to assisting developing countries evaluate the environmental and safety performance of technological options, UNEP's Environmental Technology Assessment (EnTA) Programme is carrying out a feasibility study on environmental performance indicators. The work of UNEP, OECD and others on such indicators might lead to the development of a cleaner technology customs list, which could be the basis for export promotion activities aimed at information and cleaner technology transfer.

## 4. Policy questions

49. Pressures to impose specific standards on other countries are likely to be perceived as protectionist. Positive measures, such as improved market access, improved access to technology and finance, and capacity-building, are more effective in supporting developing countries and countries in transition in their efforts to upgrade product and process standards. Governments of OECD countries and multilateral aid agencies should strengthen efforts to implement such measures. International organizations could undertake further work in this area with a view to identifying innovative approaches. Important initiatives have already been taken, such as the UNIDO/UNEP National Cleaner Production Centres. More work is needed to identify innovative sources of financing of cleaner production and to foster appropriate methods. It may be useful to identify a set of policies which are simultaneously of an environmental and developmental nature - e.g., improvements in waste water treatment may help upgrade process and production methods and provide a better quality of life for the poor. In designing policies to address such methods, priority should be given to such policies.

50. Many developing countries are undertaking important initiatives to enhance their environment. Appropriate environmental measures, however, should take account of the capacity of each country to implement the measures, and in some cases standards may need to be phased in gradually. In addition, infrastructural investment may be a higher priority in sustainable development policies in developing countries.

## C. Internalization of environmental externalities and trade

### 1. The issues

51. The Commission, at its second session, urged national authorities to endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interest and without distorting international trade and investment. The private sector also has to play a role here.

52. At the November 1994 UNCTAD/UNEP high-level meeting on trade, environment and development also, it was felt that internalization had to go hand in hand with the process of development itself.

53. Policies for selecting and implementing measures associated with the internalization of externalities, particularly when internationally traded products are involved, are still in the early stages of development and have not yet been widely tested. The policies address those who make decisions concerning what is produced, the manner in which production takes place, and what is consumed. They provide an incentive to the agent responsible for creating environmental damage to reduce or eliminate it. Furthermore, in cases where an environmental service is being provided, economic incentives can be created to reinforce that service.

### 2. Conceptual and empirical questions

54. Considerable methodological difficulties exist with regard to internalization, but such issues are not only technical but also political and economic. Since internalization will affect relative costs, it is important, in the context of trade, that its effects on competitiveness be well understood as regards both the short and the long term. Analysis should focus on the magnitude of the effects and possible cooperative approaches. The economic benefits need also be assessed more accurately.

55. Although it is not a prerequisite for internalization measures - which in an ideal world would be implemented individually by countries - a cooperative approach leading to a multilateral and multiproduct internalization of externalities would create incentives for undertaking the desirable policies and thus help to counterbalance the concern for competitiveness effects, which may impede unilateral measures of internalization. Therefore, work on institutional ways of facilitating such an approach is of considerable importance. So far, research in this respect has focused on a cooperation model for specific commodities. 18/

56. Two important questions are how much should be internalized and at what cost and, especially, who will bear the (private) economic cost of internalization (consumers in developed countries or producers in developing countries).

### 3. Ongoing work in international organizations

57. Cooperation between UNCTAD and UNEP includes a specific element on the internalization of environmental externalities. Work focuses on the practical problems that need to be resolved so that policies undertaken in respect of internalization do not impair the development efforts of developing countries and that they are consistent with the economic, financial, institutional, legal and social conditions of those countries. An important aim of this work is to draw conclusions regarding national and international policy-making, including economic, legal, financial and institutional matters.

58. Case-studies are under way in UNCTAD to assess the impact of internalization measures on variables such as income distribution, social indicators and employment, in addition to their impact on international competitiveness. The results are likely to be influenced by the choice of policy instruments, which in turn are likely to be based on the specific conditions prevailing in each country. An assessment of the marginal costs and benefits of reducing pollution is also important.

59. Case-studies are under way also in FAO to assess the environmental impacts associated with the production and local processing of individual agricultural commodities. For that purpose, and in order to have a basis for comparison, FAO has developed a methodology for the economic valuation of environmental impacts, to be used as a common approach for such assessments. 19/ The OECD Environment Directorate has for more than 20 years carried out analyses of the most effective designs of environmental policy instruments, particularly economic instruments, for the internalization of environmental costs.

### 4. Policy questions

60. National Governments should endeavour to promote the internalization of environmental costs. However, there are uncertainties and risks involved. The implications not only for consumption and trade but also for other economic and social variables are just starting to be analysed by the international community. International cooperation is necessary for assessing those implications and providing a supportive international framework to facilitate the efforts being made by developing countries. As recognized in Agenda 21, in order to support sound environmental policies in developing countries, international cooperation is needed to remove trade distortions, improve the functioning of commodity markets, improve the terms of trade of developing countries, reduce indebtedness, increase financial assistance and facilitate the transfer of technology.

## D. Multilateral environmental agreements and trade policy

### 1. The issues

61. There is wide agreement that measures addressing transborder, regional and global environmental problems should, as far as possible, be based on international consensus. International externalities require regional or global

agreement on norms and standards (which, however, may be differentiated) and raise the question of the distribution of the costs of environmental protection and improvement between countries. Technical and financial assistance have been incorporated into some multilateral environmental agreements to induce countries to adopt first-best environmental policies. In some cases trade measures have also been incorporated into such agreements to be used only as a last resort in the event of non-compliance.

62. Much of the debate has focused on the use of trade measures in the framework of multilateral environmental agreements and their relationship with WTO rules, in particular where such measures may be applied to non-Parties. Another issue relates to the competitiveness effects of obligations under the agreements, particularly on developing countries. Funds are required to encourage the transfer of technology and capital to developing countries in order to facilitate the achievement of environmental objectives. However, the funding levels of the Global Environmental Facility are below requirements, and the momentum of financial commitments has dropped since UNCED.

### 2. Conceptual and empirical questions

63. In the recent UNCTAD/UNEP high-level meeting on trade, environment and development, it was felt that future work on multilateral environmental agreements should focus on a more detailed empirical analysis of the use of trade measures, including conditions for the legitimate use of trade measures, the design of such measures, special circumstances of developing countries in relation to the agreements and trade policy, and the additional financial and other requirements for developing countries. Such an analysis could look at both the use of trade measures themselves, and at how to maximize the effectiveness of multilateral environmental agreements in general.

64. The impact of trade provisions on the competitiveness of firms in developing countries should be analysed in greater detail.

### 3. Ongoing work in international organizations

65. The GATT Working Group on Environmental Measures and International Trade (EMIT) and, subsequently, the Subcommittee on Trade and Environment have discussed several options to clarify the relationship between the trade provisions in multilateral environmental agreements and the WTO provisions. First, it has been suggested that countries could ensure that all trade measures taken in the framework of new agreements would be consistent with the existing WTO provisions. This would, however, not resolve the case of existing trade provisions in multilateral environmental agreements already in force. Two other options have been suggested. One ("ex-ante") option is an agreed interpretation of article XX, on exceptions, according to which trade measures taken in the framework of international environmental agreements which may be otherwise inconsistent with the WTO provisions would be allowed under strictly specified conditions. Another ("ex-post") option is to obtain a WTO "waiver" for trade measures which may be inconsistent with the existing WTO provisions. An

examination of these issues is continuing in the WTO Committee on Trade and Environment.

66. An examination of the necessity and effectiveness of trade measures to achieve the multilaterally agreed-upon purposes of a multilateral environmental agreement should take into account the special expertise of other international organizations, particularly UNEP. There may be a need to build predictability and to provide guidance regarding the use of trade measures in future agreements.

67. UNEP has produced several background research papers in this area. 20/ In 1995, an ad hoc legal and technical group will be convened to examine the relationship between international environmental agreements and trade policy. The first meeting will focus on trade in chemicals and on recent developments in international legal instruments for prior informed consent in trade in chemicals, based on the London Convention 21/ and other developments.

68. OECD has developed a typology for examining the use of trade measures for environmental purposes, based on their linkage to national and international environmental law, including multilateral environmental agreements; and the geographical scope of the environmental problem (domestic, transboundary, global). The typology is intended to clarify the continuum between unilateral and multilateral trade measures for environmental purposes.

### 4. Policy questions

69. It is generally felt that positive measures should be preferred to trade measures to encourage the widest possible participation in multilateral environmental agreements and that trade provisions in new agreements should be consistent with the WTO rules and trade principles, such as non-discrimination, least trade restrictiveness, and transparency. It is also necessary to examine the effects of proposed trade measures on the trade and competitiveness of developing countries and, where such effects are negative, how adequate compensation could be provided in order to induce compliance with the agreement.

## E. Environmental factors as trading opportunities

### 1. The issues

70. Environmental policies, standards and regulations, apart from contributing to environmental improvements, are a major driving force of the "environmental sector", which is seen as a source of market opportunities and job creation. Developing countries constitute an important and growing market for environmental goods and services. Although items resulting in international trade represent only a small portion of total environmental spending, they nevertheless represent a significant amount of trade. 22/

71. In a number of OECD countries, export promotion programmes target environmental protection goods, services and technology. 23/ Such programmes can make important contributions to improved environmental protection in

developing countries, provided that the promotion of exports of industrial pollution abatement equipment does not shift emphasis in international aid programmes away from support to improvements in infrastructure - for example, in sewerage and drainage systems. It is also important to ensure that aid programmes and export promotion programmes promote the transfer of equipment which is the most appropriate to the environmental and developmental conditions in the recipient developing countries, 24/ and that close integration of development assistance with export-promotion functions does not threaten the adaptation and diffusion of technology. 25/

72. In some cases developing countries and countries in transition may successfully compete in the market for environmental goods and services. 26/ Since new markets for environmental goods and services are emerging in the developing countries, there may be opportunities for South-South trade, in particular in goods and services using technologies that have been designed with the local environmental and developmental conditions in the developing countries in mind.

73. The Commission, at its second session, stressed the possible trading opportunities that might emerge for "environment-friendly" products from developing countries. 27/ Demand for such products stems principally from developed country markets. Many natural products with environmental advantages are produced by developing countries. Increased utilization of these products by developing countries themselves could contribute to environmental protection in those countries, lead to savings on foreign exchange spent on alternative imports, or enhance trade among developing countries.

74. An important question is how to define and certify environment-friendly products. Since no product is absolutely environment friendly, it is important to ensure that environmental claims be credible, take account of consumer interests and support fair competition. ISO's work is important in this context.

75. Another question is how policy changes may encourage the competitiveness of environment-friendly products. For example, to the extent that (importing) countries move towards fuller internalization of environmental costs in the case of substitutes for inherently environment-friendly products, the competitiveness of the latter may be further enhanced. In this context, the UNCTAD Committee on Commodities concluded that, in cases were such demand shifts did not occur spontaneously, it could be expected that fiscal and pricing measures to encourage the internalization of environmental costs could result in significant changes in patterns of consumption.

### 2. Conceptual and empirical questions

76. A large and growing market exists for environmental goods and services. According to a widely quoted OECD study, the global market for them will grow from an estimated $200 billion in 1990 to $300 billion in the year 2000. 28/ More work is needed to analyse the opportunities arising from the market, including opportunities for producers in developing countries. An analysis of

the effects of linking official development assistance with the promotion of exports of environmental goods and services may also be useful.

77. The conceptual and empirical questions relating to environmental factors as trading opportunities include the following: the extent to which market forces, assisted by growing consumer environmental awareness, will generate increased demand for environment-friendly products, and how permanent the demand for specific products can be expected to be; whether and under what conditions consumers are willing to pay a premium for products with environmental advantages; how significant the trading opportunities are for developing countries, considering market access, competitiveness and supply constraints.

### 3. Ongoing work in international organizations

78. Some analysis has been made of trade in environmental goods and services, in particular in OECD. Work in other organizations - FAO, UNCTAD, UNEP and ITC - has focused on trading opportunities for environment-friendly products. Progress has also been made in coordination arrangements among these organizations - for example, the important and complementary roles of UNCTAD and ITC in information dissemination and technical assistance for exploiting the new trading opportunities arising from environmental concerns (UNCTAD at the intergovernmental and policy level and ITC at the operational level). 29/

79. In UNCTAD, the Committee on Commodities has been examining issues related to improving the competitiveness of natural products with environmental advantages. The UNCTAD secretariat is implementing a technical cooperation project on environmentally preferable products. Trading opportunities for environment-friendly products are also being analysed in the Ad Hoc Working Group on Trade, Environment and Development.

80. As part of its overall programme on environment-related trade promotion in developing countries, the International Trade Centre (ITC) is expanding its activities to provide information on trading opportunities for environment-friendly products, eco-labelling systems and eco-packaging criteria and procedures and to assist developing country producers to seize trading opportunities in their target markets. ITC is also considering providing assistance to institutions, associations and enterprises in developing countries in establishing product-specific sector level labels or national-level eco-labelling schemes.

### 4. Policy questions

81. The promotion of trading opportunities for environment-friendly products from developing countries may be enhanced through technical assistance and capacity-building efforts. For example, the UNCTAD Standing Committee on Commodities decided that there was considerable scope for financial and technical cooperation between developed and developing countries for improving the environmental advantages of natural products. Technical assistance and support to national capacity-building could focus on a number of areas, such as the provision of information, assistance in market research and marketing, and

technical assistance to testing and certification bodies in the developing countries and countries in transition.

82. International cooperation on eco-labelling and eco-certification may further assist developing countries in producing and exporting environment-friendly products, while taking account of the local environmental and developmental conditions in the countries of production.

83. More work is needed to specify ways and means by which the credibility of environmental claims relating to products from developing countries can be substantiated. Technical assistance would be required to establish mechanisms for certifying or substantiating such claims and for facilitating the exports of environment-friendly products from developing countries.

## F. Trade policies and the environment

### 1. The issues

84. Chapter 2 of Agenda 21, in particular programme area A, on promoting sustainable development through trade, stressed the importance of trade liberalization for the promotion of sustainable development. Improved market access has an important role to play in moving towards sustainable development, by providing resources for environmental improvements and by increasing efficiency. Improved market access also facilitates the diversification of production and exports, thus reducing the heavy dependence of many countries on a few commodities for foreign exchange earnings. The implementation of the results of the Uruguay Round will improve market access. However, it remains important to identify areas where further trade liberalization - e.g., by reducing or eliminating tariff escalation - could contribute to sustainable development.

85. Further trade liberalization is a necessary but not sufficient condition for sustainable development. The resulting changes in economic activity have environmental effects which may be positive or negative, depending on specific situations and policies. National Governments have an interest in analysing the environmental effects of significant changes in production and consumption patterns, including those resulting from trade policy reforms, and in making the policy adjustments necessary to avoid negative environmental effects.

86. Excessive environmental damage from an economic point of view results when the marginal social cost of using environmental resources exceeds the marginal social benefit. The divergence between marginal social cost and benefit arises due to market failure - the failure of markets to equate marginal social cost and benefit, or policy failure - a microeconomic policy that encourages excessive use of an environmental resource. In this context, the Commission, at its second session, stressed the need to decrease subsidies that have harmful environmental and trade-distorting effects. To the extent that trade-distorting policies are also environmental policy failures (i.e., agricultural input subsidies, disincentives to transfer environmentally sound technology etc.), trade liberalization will have the added benefit of mitigating some degradation. Alternatively, trade liberalization may exacerbate underlying policy or market

failures, leading to increased environmental degradation. This should not be suggested as an argument against liberalization. Rather, this is indicative of the need for environmental policies to address the market and policy failures that complement trade liberalization policies.

87. One aspect of trade liberalization in developing countries is greater openness and increased competition in their domestic markets. Greater openness has facilitated the importation of up-to-date technologies and the availability of environmentally preferable chemicals and other raw materials. In some cases, such as fisheries and tropical timber, import liberalization may offer temporary solutions by alleviating the pressure on the intensive use of resources domestically. In other cases, trade liberalization may have negative environmental effects.

88. Greater openness and increased commercial and investment links with countries where environmental requirements are stringent have also contributed to environmental improvements, especially by larger firms, and to building awareness. The industrial restructuring process may facilitate the introduction of environmental improvements. Also, increased import competition may result in certain improvements in the environmental performance of firms, as a result of their efforts to achieve higher production efficiency.

89. Concerns have been raised, especially by developing countries, with respect to the export, in particular by developed countries, of domestically prohibited goods in the country of export. 30/

## 2. Conceptual and empirical questions

90. The environmental effects of trade have often been debated, and certain conclusions can be drawn. First, trade does not directly contribute to environmental degradation; unsustainable production methods are at the root of the problem. However, while environmental degradation could be attributed to market and policy failures, trade can serve as a magnifier. Second, in the absence of trade liberalization, the environment may or may not be worse off, depending on the interaction of trade-distorting policies and underlying market or policy failures. Third, to the extent that liberalization increases welfare and results in higher income levels, countries may move to higher levels of environmental protection.

91. How trade liberalization affects the environment is basically an empirical question. As implied above, it follows that an empirical analysis should not be carried out in isolation of the broader development process. Trade liberalization, if accompanied with appropriate environmental policies, may facilitate internalization of environmental costs by expanding the growth opportunities of a country.

92. Conceptual and empirical analysis of the effects of trade liberalization on the environment has focused on a number of effects, such as composition effects (effects on the structure of output and hence on the average pollution intensity of production), structural effects, regulatory effects (effects on the ability of Governments to design and implement environmental policies), technology

effects (effects of technology transfers and freer investment flows), product effects, and scale effects.

### 3. Ongoing work in international organizations

93. The WTO Committee on Trade and Environment is analysing the environmental benefits of removing trade restrictions and distortions. In accordance with the decisions of the UNCTAD Standing Committee of Commodities, in its conceptual and empirical work on the internalization of environmental externalities, the UNCTAD secretariat will focus on the impact on the environment of major distortions in price mechanisms - in particular on the impact of subsidies.

94. OECD has carried out extensive analysis of the effects of trade liberalization on the environment and has developed a conceptual framework and a methodology for conducting environmental reviews of trade policies and agreements. 31/ UNEP is providing technical assistance to developing countries in this area. UNEP prepared a background paper on environmental reviews and trade policy and held a working-level expert group meeting to review the compatibility of macroeconomic and environmental assessment modelling. An international conference on environmental review of trade policy will be hosted by UNEP in late 1995 or early 1996, to review assessment methodologies, sectoral studies, policy option responses and capacity-building needs at the national level.

95. Several issues analysed under the joint UNCTAD/UNDP project on the reconciliation of environmental and trade policies deal with the effects of trade liberalization on the environment and the identification of policies that mitigate possible negative environmental effects without sacrificing the benefits of trade liberalization.

96. The WTO Committee on Trade and Environment initiated its work with deliberation on domestically prohibited goods. FAO and UNEP established a joint programme for the implementation of prior informed consent in 1990. Such consent refers to the principle that international shipments of chemicals, including pesticides that are banned or severely restricted in order to protect human health or the environment, should proceed only with the explicit agreement of the national authority in the participating importing country. The consent procedure includes certain pesticide formulations that are actively toxic. To date, 127 member countries have designated national authorities to be responsible for prior informed consent. Compilations of import decisions are forwarded to participating countries biannually. FAO and UNEP are preparing a legally binding instrument on prior informed consent in order to make the currently voluntary, non-binding procedure more effective. The conclusion of a convention on the subject is envisaged for 1997.

### 4. Policy questions

97. Further trade liberalization is a necessary but not sufficient condition for sustainable development. Trade liberalization may have positive as well as negative environmental effects. Where trade liberalization would have negative

environmental effects, policies are required to address market and policy failures. Further empirical analysis and capacity-building are required to assist Governments in assessing the environmental effects of trade policies, in order to facilitate national policies aimed at avoiding or mitigating adverse environmental effects.

## III. CAPACITY-BUILDING

98. The Commission, at its second session, underlined efforts to make trade and environment mutually supportive through, inter alia, strengthening technical assistance in capacity-building undertaken by UNCTAD, UNDP and UNEP. UNDP will focus in particular on the impact of trade and environment on development. Building capacity to integrate trade and environmental policies into the development planning process is crucial, as is the capacity to develop and implement appropriate policy responses. The UNCTAD secretariat is developing a monograph on capacity-building in the area of trade and environment, to be published in a UNDP series of monographs on capacity-building for sustainable development.

99. UNCTAD, in cooperation with UNDP and UNEP, is implementing a comprehensive technical assistance programme. 32/ Under the joint UNCTAD/UNDP project on the reconciliation of environmental and trade policies, research institutes in developing countries are analysing country-specific experiences in order to better understand trade and environment linkages. In addition, a number of country case studies are being undertaken under the joint UNCTAD/UNEP project on capacity-building in trade and environment. 33/

100. The UNCTAD secretariat, as part of its technical cooperation programme, has been organizing training and capacity-building seminars. UNEP and UNDP are contributing to further improvement of the training package and to the organization of workshops. For example, a seminar for African countries, hosted by UNEP in Nairobi from 26 to 29 July 1994, was attended by 45 participants from 33 countries. The secretariats of GATT, UNCTAD, UNDP and UNEP provided resource persons.

101. UNEP is providing technical assistance to support public environmental education, environmental awareness, and environmental capacity-building.

## IV. CONCLUSIONS AND RECOMMENDATIONS

### A. Conclusions

102. A number of issues related to the linkages between trade, environment and development emerged from Agenda 21 and the Commission on Sustainable Development at its second session. It is important to place trade and environmental issues within the broader framework of sustainable development. This requires that the fullest possible account be taken of the special conditions and development needs of the developing countries. There is also a need for support to build institutional capacity in developing countries and countries in transition.

103. The present report has identified a number of key issues related to the linkages between trade, environment and sustainable development. Each involves conceptual, empirical and policy questions. Ongoing work in different international organizations aims at clarifying these issues, through policy analysis and debate, and at deriving policy conclusions therefrom. Major groups, such as non-governmental organizations and the private sector, are also addressing trade and environment linkages and are making important contributions to a better understanding of them.

104. Positive measures, such as improved market access, improved access to technology and finance, capacity-building and special provisions for small firms, are the most effective instruments for supporting developing countries and countries in transition in their efforts to internalize environmental externalities.

105. There is need to analyse the potential effects of the product-specific policies that have emerged recently, such as eco-labelling and certain packaging and recycling requirements. It is important to analyse how improved transparency and international cooperation could be strengthened, particularly where there are potentially negative effects. Additional measures can be taken at the national level.

106. With regard to eco-labelling, it is important to improve transparency and to exercise care in applying criteria relating to process and production methods in product categories where imports, particularly imports from developing countries, are predominant.

107. Positive measures, including financial and technical assistance, should be preferred over trade measures to encourage the widest possible participation in multilateral environmental agreements. Governments should strive to ensure that trade provisions in new agreements are consistent with the WTO rules and trade principles, such as non-discrimination, least trade-restrictiveness and transparency.

108. Consumer preferences for environment-friendly products may create trading opportunities for developing countries. More work is needed to specify ways and means by which the credibility of environmental claims relating to products from developing countries can be substantiated.

109. Further trade liberalization is a necessary but not sufficient condition for sustainable development. Trade liberalization may have positive as well as negative environmental effects. National Governments have an interest in analysing the environmental effects of significant changes in production and consumption patterns, including those resulting from trade policy reforms, and in making the policy adjustments necessary to avoid negative environmental effects. Where trade liberalization would have a negative environmental effect, accompanying policies to address market and policy failures are required.

110. The present report has made several suggestions for strengthening the positive linkages between trade and environmental policies. It should be noted, however, that in many cases there is no clear relationship between trade and environment and that, in general, trade policy should not be used for the

attainment of environmental objectives. In pursuing environmental sustainability, countries should use direct measures which address the specific distortions or market failures.

## B. Recommendations

111. The Commission may wish to take the following action:

(a) Invite UNCTAD, in cooperation with UNEP, WTO, the Department for Policy Coordination and Sustainable Development of the United Nations Secretariat and other appropriate institutions, to consider preparing a background paper for the Commission which would review the growing volume of research carried out by academic institutions in developed and developing countries, including some in the framework of projects supported by international and bilateral aid agencies, on the interlinkages of trade, environment and sustainable development, with a view to identifying possible gaps, facilitating an exchange of information, and encouraging capacity-building efforts in developing countries and countries in transition;

(b) Encourage UNDP, UNCTAD and UNEP to strengthen further their technical assistance for capacity-building in integrating trade, environment and development policies;

(c) Recommend that the Governments of OECD countries and multilateral aid agencies strengthen their efforts to implement measures to improve the access of developing countries and countries in transition to markets, technology and finance and to build capacity in order to support their efforts to internalize environmental externalities. International organizations could undertake further work in this area with a view to identifying innovative approaches;

(d) With respect to eco-labelling and certain other packaging and recycling requirements, invite UNCTAD and UNEP, in cooperation with ISO, OECD and other relevant international organizations, to analyse how transparency and international cooperation could be strengthened, particularly where those requirements might have negative impacts; recommend that Governments take steps to avoid or mitigate the adverse effects of such requirements on developing countries by ensuring sufficient recycling facilities for materials used by exporters from developing countries and by providing technical assistance aimed at improving the recyclability or reuse of such materials;

(e) Encourage UNEP and UNCTAD to continue to explore the scope for "equivalencies" and mutual recognition among eco-labelling schemes;

(f) Invite WTO, UNCTAD and UNEP to examine carefully the effects of proposed trade measures in multilateral environmental agreements on the trade and competitiveness of developing countries and, in order to induce compliance with the agreements, to examine how compensation could be provided for any resulting economic or trade losses;

(g) Invite multilateral and bilateral development institutions to provide technical assistance to developing countries in order to establish mechanisms

for certifying or substantiating claims for losses, as referred to above, and for facilitating the export of environment-friendly products from developing countries;

(h) Encourage international organizations and bilateral development programmes to undertake empirical analysis and capacity-building to assist Governments in assessing the environmental effects of trade policies, in order to facilitate national policies aimed at avoiding or mitigating adverse environmental effects.

## Notes

1/ Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992 (A/CONF.151/26/Rev.1 (Vol. I and Vol. I/Corr.1, Vol. II, Vol. III and Vol. III/Corr.1)) (United Nations publication, Sales No. E.93.I.8 and corrigenda), Vol. I: Resolutions adopted by the Conference, resolution 1, annex II.

2/ Official Records of the Economic and Social Council, 1994, Supplement No. 13 (E/1994/33/Rev.1, chap. I, paras. 25-42).

3/ A synthesis report of a number of country specific studies carried out under the joint UNCTAD/UNDP project on reconciliation of environmental and trade policies will be discussed at a high-level expert group meeting hosted by UNDP (New York, 10-11 April 1995).

4/ The list of meetings is as follows:

(a) The Intergovernmental Group on Meat, fifteenth session, 3-6 October 1994, covered environmental concerns and the meat and livestock sectors: basic issues and implications for trade;

(b) The Sub-Group on Hides and Skins, fourth session, 27-29 September 1994, discussed the environmental impact of processing hides, skins and leather;

(c) The Intergovernmental Group on Jute, Kenaf and Allied Fibres, twenty-ninth session, 6-8 December 1993, dealt with jute and the environment;

(d) Expert Group Meeting on Diversified Applications of Bio Resources such as Jute, Kenaf, Coir, Sisal and Allied Fibres, 5-7 October 1994, covered, inter alia, energy potential from wastes of jute, kenaf, coir and sisal;

(e) The Intergovernmental Group on Wine and Vine Products, sixth session, 5-9 September 1994, reviewed developments in environmental legislation and implications for trade in the past year;

(f) The Technical Consultation on the Code for Responsible Fishing, 26 September-5 October 1994, discussed a draft on post-harvest practices and trade of the Code of Conduct, which covers aspects of environment, trade and the conservation of living aquatic resources.

5/ The 10 areas are internalization; environmental standards; emerging trends in environmental policy-making; eco-labelling and certification; the role of science; indicators of sustainable development; multilateral environmental agreements; additional financing and technology transfer; positive incentives to build compatibility between trade and environment; and capacity-building.

Cooperation between UNCTAD and UNEP also covers the internalization of environmental externalities, which is a fundamental issue at the interface between trade and environment. Work focuses on the practical problems that need to be resolved so that policies undertaken in respect of internalization do not impair the development efforts of developing countries and are consistent with the economic, financial, institutional, legal and social conditions of those countries. See E/CN.17/1994/CRP.2.

6/ For example, the International Institute for Sustainable Development in Winnipeg, Canada, published GATT, the WTO and Sustainable Development (Winnipeg, IISD, 1993).

7/ For example, the Latin American Faculty for Social Studies is implementing a project, supported by the International Development Research Centre in Canada, consisting of a number of case studies on trade and environment linkages carried out by researchers in developing countries.

8/ GATT, "Report on the GATT Symposium on Trade, Environment and Sustainable Development", News and Views from the General Agreement on Tariffs and Trade (TE 008, 28 July 1994).

9/ The main purpose of the Programme is to protect the health of the consumers and to ensure fair practices in food trade. The Codex Alimentarius Commission has a membership of 150 countries. It has adopted over the years a large number of food standards; codes of hygienic and technological practice; maximum residue levels for pesticides, veterinary drugs and other contaminants in food; and maximum levels for food additives. It has also adopted guidelines for food labelling. Many of the Codex recommendations are health-related, and WHO has invited its member States to put them into public health practice, since foods complying with Codex recommendation are safe and offer adequate health protection.

10/ UNCTAD, "The impact of environment-related policies on export competitiveness and market access" (TD/B/41(1)/4).

11/ The Group initiated its deliberations on international cooperation on eco-labelling at its first session, held from 28 November to 2 December 1994. In accordance with its terms of reference, the Group focused its deliberations on a comparative analysis of current and planned schemes, with a view to discussing concepts such as mutual recognition and equivalencies; and an examination of the possibilities for taking into account the interests of developing countries in the elaboration of eco-labelling criteria. Discussions were aided by the secretariat's report "Eco-labelling and market opportunities for environmentally friendly products" (TD/B/WG.6/2).

12/ "Eco-dumping" could be defined as the practice by a country of deliberately setting its standards at an artificially low level or not enforcing them, in order to gain a competitive trade advantage or attract investment.

13/ OECD, Environmental Policies and Industrial Competitiveness (Paris, 1993).

14/ Piritta Sorsa, "Environmental protectionism, North/South trade, and the Uruguay Round", paper presented to the Symposium on the World Economy after the Uruguay Round, with Some Implications for Austria. IMF Working Paper WP/95/6.

15/ Commercial and investment links with countries where environmental requirements are stringent often contribute to high environmental standards, in particular in the case of larger firms, which have direct contacts with foreign clients and possess the financial and technological means to invest in environmental improvements. Larger firms in some developing countries are also increasingly using ISO-9000 quality management standards (which are not environment-related) and in those countries there is considerable interest in the ongoing process in ISO aimed at developing similar standards for environmental management systems through the ISO-14000 series. Many larger firms in developing countries are aware that ISO-14000 standards provide a basis for third-party certification/registration of a firm's environmental management systems, giving it greater credibility with financial institutions, insurance companies, regulators and consumers.

16/ OECD, Trade and Environment: Processes and Production Methods (Paris, 1994).

17/ "The measurement of the impact of environmental regulations on trade" (CCP 95/15).

18/ H. L. M. Kox, "The international commodity-related environmental agreement: background and design", paper prepared for the ICREA Research Project, Faculty of Economics and Econometrics, Free University, Amsterdam (June 1994).

19/ "The economic assessment of production-related environmental impacts: an FAO manual" (ESC/M/94/7).

20/ See the UNEP series of publications Environment and Trade, and especially Nos. 6, 7 and 10.

21/ The 1972 Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter, amended in 1993.

22/ Office of Technology Assessment, Trade and Environment: Conflicts and Opportunities (Washington, D.C., United States Government, Printing Office, 1993), pp. 120 and 121. A major item in large environmental projects tends to be local expenditures - for example, for local construction (waste-water-treatment plant construction, landfill or incinerator development, power plant scrubber installation, etc.) or for low-value materials can often be more

cheaply provided locally. A large part of environmental spending in the industrialized countries is for the day-to-day operation of water and waste-water utilities and refuse collection and disposal.

23/ "Export promotion and environmental technologies" (OECD/GD(94)9).

24/ Office of Technology Assessment, op. cit.

25/ Keith Kozloff and Olatokumbo Shobowale, "Rethinking development assistance for renewable electricity" (Washington, D.C., World Resources Institute, November 1994).

26/ TD/B/40(1)/4. Using the definition of pollution abatement equipment given in a recent study by the United States Environmental Protection Agency, the UNCTAD secretariat estimated that world trade amounted to approximately US$ 6.6 billion in 1992. It is interesting to note that Asian developing countries absorbed almost one third of OECD exports in 1992. Almost 9 per cent of Asian imports were supplied by intra-Asian trade.

27/ Increased utilization of these products by developing countries themselves could contribute to environmental protection there and lead to savings on foreign exchange spent on alternative imports. Moreover, the long-term sustainability of production may be enhanced and eventual cost savings may be realized through the introduction of environmentally preferable practices, leading to improved competitiveness. The time needed for these long-term effects to take place is an important consideration for developing countries.

28/ "The OECD environmental industry: situation, prospects and government policies" (OECD/GS(92)/1).

29/ "Final report of the Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries" (TD/B/41(1)/7 and TD/B/WG.4/15).

30/ Information on such products is contained in Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or Not Approved by Governments (United Nations publication, Sales No. E.94.IV.3).

31/ OECD, The Environmental Effects of Trade (Paris, 1994); "Methodologies for trade and environment reviews" (OECD/GD/(94)103).

32/ See, for example, "UNCTAD's technical cooperation programme on trade and environment" (TD/B/WG.6/MISC.1).

33/ Technical cooperation activities that can contribute to capacity-building are also undertaken as part of UNDP-funded regional projects for Asia and the Pacific and for Latin America and the Caribbean, which are implemented by UNCTAD.

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